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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

ECONOMIC PEACE THROUGH THE ISRAELI LENS

by

Rachel N. Davis

March 2014

Thesis Advisor:
Second Reader:

Robert Springborg
Glenn E. Robinson

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ECONOMIC PEACE THROUGH THE ISRAELI LENS

Rachel N. Davis, Civilian, Department of the Navy
B.A., University of Santa Cruz, 2009

Submitted in partial fulfillment of the
requirements for the degree of

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March 2014**

Author: Rachel N. Davis

Approved by: Robert Springborg, Ph.D.
Thesis Advisor

Glenn E. Robinson, Ph.D.
Second Reader

Mohammad Hafez, Ph.D.
Chair, Department of National Security Affairs

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ABSTRACT

The economic factors in the Arab–Israeli Conflict are often overshadowed by its more powerful political features, but economics plays a significant, if not equal, role in the conflict’s protracted nature. Like politics, however, economics cannot singlehandedly harbor a solution. From Israel’s perspective alone, a solution based on economic peace faces serious obstacles: Israeli nationalism, the State-reliant structure of Israel’s economy, and the imbalance of power between Israel and Palestine mean the preconditions for economic peace are currently unattainable. This thesis outlines the obstacles to economic peace but does not hasten to reject an economic approach to an ultimate agreement. Rather, this examination of why, under existing conditions, economic peace will fail exposes the political economy of the conflict in Israel. Until the obstacles to economic peace, as defined by scholars rather than politicians are addressed and surmounted, peace, whether it be called a primarily economic or political peace, will remain elusive. Economic peace, therefore, warrants serious consideration as a gauge of both the economic and political conditions necessary for any lasting compromise and as a means to mediate the polarizing effects of identity politics, ideology, and isolation.

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LIST OF ACRONYMS AND ABBREVIATIONS

IPI	Israeli Peace Initiative
IDF	Israeli Defense Forces
IDB	Israeli Discount Bank
API	Arab Peace Initiative
OT	Occupied Territories (of Palestine)
PLO	Palestine Liberation Organization
PA	Palestine Authority
GCC	Gulf Cooperation Council
GDP	gross domestic product
MENA	Middle East and North Africa

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I. “THE DOG THAT DIDN’T BARK”

In a short essay on economic security, Dov S. Zakheim, former undersecretary of defense in the Reagan administration and foreign-policy advisor for George W. Bush, wrote:

Given its continuing dependence on the United States for both its military and economic well-being, and the degree to which its educational and intellectual institutions are closely attuned to American trends, one would expect Israel to be particularly sensitive to any new formulations that sweep the Washington policy-making establishment. It should therefore come as no surprise that some leading Israeli policy-makers, most notably Prime Minister Shimon Peres, have increasingly argued that the evolving Middle East will become one in which economic rather than military concerns will predominate; that the key to lasting peace in the Middle East is private free enterprise rather than inter-governmental aid; and that the importance of conventional military capability can be expected to decline in the twenty-first century. To some extent as well, this view is implicit in the nature of the Israeli government’s concessions for a settlement with Syria: in exchange for territorial withdrawal it seeks “normalization.” In other words, it is prepared to pay a conventional military price that, in the past, would have been considered particularly high in light of the strategic terrain involved. In exchange it seeks the prospect of potential economic cooperation that, when, seen as a spur to increasing economic integration with the rest of the Muslim world, will yield the engine for peace that Peres dreams of.¹

Swap the land of Syria for the greater Middle East, Peres’s name for Netanyahu’s, and this 1996 statement nearly described the summer of 2013, as U.S. Secretary of State John Kerry forged ahead with a campaign to initiate economic peace. Kerry’s plan makes the United States second on the new economic-peace bandwagon, which began in 2002, when the Arab League ratified an outline for a plan that calls for Israeli territorial concessions in exchange for normalization (i.e., Israel’s full access to the Middle East/North African economy). In response, a conglomeration of Israeli businessmen, ex-security officials, and academics wrote the Israeli Peace Initiative, which calls for a return to talks guided by economic incentive. Secretary Kerry’s addition is to entice

¹ Efraim Karsh, *Between War and Peace: Dilemmas of Israeli Security* (Portland: Frank Cass, 1996), 13.

Palestine to the table by offering millions in foreign investment. All four major players—Israel, Palestine, the Arab League, and the United States—have at least a toe in the waters of commercial peace. And why not? Economic peace seems like a rational alternative to the zero-sum direction of current affairs and, in this age of global trade, more inevitable than in 1995.

But not all see a rosy picture. Critics of economic peace argue from two positions: either that economic peace undermines security efforts or that a political solution must precede an economic one. Both these objections, while superficially convincing, fail to account for the role economics plays in both security and politics.

There is extensive literature on the Arab–Israeli conflict; yet despite minute analysis in terms of politics, there is little scholarship on the role of economics, whether in relation to security, protraction of the conflict, or influence on political agreements and outcomes. Economics truly is “the dog that didn’t bark” in the Arab–Israeli conflict, perhaps because it is so integral to the dynamics of this strife that it often escapes scrutiny.

The conventional security concern, which justifies Israel’s “de-development” strategy, is that relaxation of the Israeli–Palestinian border enables terrorism, and if Palestinians were able to acquire capital, it could be used for weapons and lobbying against Israel. This argument is outlined by B’tselem in *Arrested Development: the Long-Term Impact of Israel’s Separation Barrier in the West Bank*. As Alan Dershowitz points out, Israel’s retreat from Gaza has only led to more vitriol against Israel.

This conclusion, however, is problematic. The World Bank, Human Rights Watch, UN reports, and other humanitarian agencies ask, “how will cooperation (and peace) ever develop if Israel continues to undermine the growth of Palestine’s economy and its moderate middle class, through its debilitating security measures?” While Gaza has fewer Israeli troops on the ground, it is more restricted and “de-developed” than the West Bank, which suggests that stifling economic policies only encourage terrorism.

While most of the literature focuses on the devastating consequences of this strategy, few authors give a satisfactory reason for it, economic or otherwise. Neither

have they directly asked, with the exception of Shir Hever, why Israel has not seriously pursued an avenue of commercial peace and cooperation in the formulation of a peace agreement. Most notably, Sara Roy in *The Gaza Strip* and Marwan Bishara in *Palestine/Israel: Peace or Apartheid* sidestep this debate by asserting that economics is subordinate to politics, without sufficiently explaining why. Roy identifies the ideological importance of land, but many scholars have mistakenly framed the conflict in terms of class struggle. As authors like Danny Gutwein note, the Israeli underclass tends to have the most hostility toward a peace agreement. As Shir Hever points out, capitalists are not benefitting from the occupation or settlements.²

The politics-first argument has a similar illogical strain. In political agreements from the Balfour Declaration to Oslo, the lack of specificity about economics (including trade liberties, capital inequalities, and the vital issue of property rights) has rendered peace and policy agreements ineffective. While politicians preach the need to address economic issues, they rarely do so. Apart from a few, including Shir Hever, Neve Gordon, in *Israel's Occupation*, and Sara Roy, few have examined political actions from an economic angle.

Ideology drives the conflict, but its means are economic. Yet it is also true that economics shapes ideology. The general paucity of discussion on the role of economics in the relationship between the Israeli and Arab peoples suggests a pervasive misapprehension of the importance of economics in the path to peace. It is with great circumspection that I attempt to add to the debate by pointing out why economics is subordinate to politics and that these realities are the very obstacles to political resolution.

A. ECONOMIC PEACE THEORY

Economic-peace theory asserts that a cooperative political relationship can be founded on mutually beneficial commercial interests. This idea has seen widespread resurgence in economic and international-relations literature and on the political scene. The idea is not new: Montesquieu, Bastiat, Mill, Cobden, Angell, and Adam Smith

² Shir Hever, *The Political Economy of Israel's Occupation: Repression beyond Exploitation* (New York: Pluto Press, 2010), 151.

discussed its potential.³ It has also had critics: Alexander Hamilton, for example, argued for the alternative of economic self-reliance.⁴ The most devastating refutation has been the resounding failure of its proponents to predict peace. Norman Angell's *The Great Illusion* hypothesized that globally invested capitalists would prevent World War I; he did not foresee that economic interests would counterbalance political–nationalist pressures. Nevertheless, such was the belief in his ideas that he was awarded the Nobel Peace Prize in 1933, in spite of his theory's resounding inadequacy.

Angell failed to account for the economic forces of protectionism, nationalism, and perceived social and economic inequalities, which completely swept aside immediate trade interests. But, while Angell's methodology was flawed, his thesis should not be brushed aside. Economic peace, by another definition, predicts conflict where its indicators are absent. Ronald Robinson, John Gallagher in "The Imperialism of Free Trade," John Hobson in *The New Imperialism*, and, most notably, John Maynard Keynes, argued that indicators for economic peace were absent before the outbreak of the world wars. Instead, conflict was encouraged by economic factors, particularly protectionist trade relations and insular political economies with international ambitions. Economic interdependence per se, does not equal economic peace. Rather, it is the nature of that interdependence that brings peace or war.

This distinction is crucial for scholars of economic peace in the post-2000 era. Interest in economic peace has reignited due to the Soviet Union's collapse, the emergence of vast global economic systems, and the collection of new statistical data supporting the economic-interdependence/peace link, the result of large *n*-study measurements since 1980.

Groundwork for the expansion of economic-peace theory was laid by Brian Pollins in his articles, "Conflict, Cooperation, and Commerce," and "Does Trade Still Follow the Flag." Walter Isard was one of the principal architects of an empirical

3 IKV Pax Christi. "Analyzing Israel's Economic Policy Towards Palestine and the Practical Implications of Netanyahu's Economic Peace" (Commissioned, Amsterdam: IKV pax Christi, 2012), 9.

4 Edward D. Mansfield and Brian M Pollins. "The Study of Interdependence and Conflict: Recent Advances, Open Questions, and Directions for Future Research." *The Journal of Conflict Resolution* 45, no. 6 (December 2001): 834–859, 837.

methodology for economic-peace theory, relying on rational-choice theory and game theory derived from the field of economics.⁵ In 1994, Isard defined economic peace as “(1) resolution, management, or reduction of conflict in the economic sphere; (2) the use of economic measures and policy to cope with and control conflicts whether economic or not; (3) the impact of conflict on economic behavior and welfare of firms, consumers organizations, government, and society.”⁶ Raul Caruso refined Isard’s definition by drawing a third distinction, between productive and unproductive activities as defined by classical economics. He argues that conflict and market structures are not independent. Rather, conflict is integrated into a market in varying degrees. Caruso’s research is part of the recent effort to refine the definition of those measurable factors required for economic peace.

Despite the scientific approach to economic peace developed in the 1990s, a great deal of contention remains in the field of international relations. Liberals see the correlation between market integration and peace as causal; realists, who are skeptical that trade affects high-politics issues, contend that trade gains benefit a small minority.⁷ Skeptics on both positions, like Barry Buzan in “Economic Structure and International Security: The Limits of the Liberal Case,” find very little relationship between economic interdependence and peace.

Realist literature was most prolific before the Soviet Union’s collapse, with writers like Albert Hirschman in *National Power and the Structure of Foreign Trade*, Eugene Staley, in *The World Economy in Transition*, and Kenneth Waltz in *The Myth of National Interdependence*. Their position was countered by liberals Michael Doyle in *Ways of War and Peace: Realism, Liberalism, and Socialism* and Joanne Gowa and Edward Mansfield in “Power Politics and International Trade.”

6 Walter Isard, “Peace Economics: A Topical Perspective.” *Peace Economic, Peace Science, and Public Policy* 1, no. 2 (1994): 1, 6–9.

7 Galia Press-Barnathan, “The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace.” *Journal of Peace Research* 43, no. 3 (May 2006): 261–278, 262.

Typical of current theorists, Galia Press-Barnathan attempts to incorporate realist and liberal theory by focusing on the discrepancy between the strong correlation between economic interdependence and peaceful relations in many cases and the failure to predict it in others. She points out that research focuses on why interdependence among nations prevents conflict, not on whether it can create peace—a subtle but important distinction.⁸

A succinct statement of liberal theory on economic-peace theory, which also highlights the importance of nuance, is Patrick J MacDonald's "Peace through Trade or Free Trade?" McDonald writes,

The debate over whether and how international commerce alters the foreign policy of states, and in particular the decision of war, has gained renewed prominence in the fields of international security and international political economy. Despite substantial empirical support for the proposition that increasing levels of cross-border economic flows—defined either in terms of trade or capital movements—decrease the probability of conflict, scholars have yet to approach a consensus concerning the precise nature of this link.⁹

McDonald explains that understanding trade interaction is crucial in defining economic peace theory; economic peace is founded on a free-trade relationship while protectionism leads to conflict.¹⁰ For the purposes of this thesis, economic peace is defined as economic policy and market forces that support and extend peaceful, cooperative international relations, empirically measured by the extent of free trade, limit of protectionism, scope of the military-industrial complex in the economy, reach of the state in economic affairs, degree of equality in the political and economic leverage between given states, extent of individual access to capital and markets, extent of contested resources, and the perception of respect in economic exchange.

Press-Barnathan's "The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace" and IKV Pax Christi's report, "Analyzing Israel's Economic Policy Towards Palestine and the Practical Implications of

⁸ Press-Barnathan, "The Neglected Dimension of Commercial Liberalism," 262.

⁹ Patrick McDonald, "Peace through Trade or Free Trade?" *The Journal of Conflict Resolution* 48, no. 4 (August 2002): 547–572, 547.

¹⁰ McDonald, "Peace through Trade or Free Trade?," 556.

Netanyahu's Economic Peace" are among works that have examined the potential of economic peace to catalyze a new peace process in the Arab–Israeli conflict. But there has been no comprehensive examination of how economic peace might serve as the measure of a successful political process. Economic peace is considered under existing conditions rather than in relation to a web of connected variables. The IVK Pax Christi Report, for example, concludes that a political solution must be found before an economic, which brings all concerned no closer to resolution than under Israel's conclusion that a security solution must come first. The problem is that political and security solutions are not independent from economic solutions—all three must be addressed simultaneously. The resolution of this conundrum is far from simple. *Who* the players are matters as much as *how* economic peace will be implemented. However, if economics continues to be neglected in a political solution, and politics neglected in an economic solution, a broken compromise will prevail.

B. IDEOLOGY'S INCENTIVE: WHY POLITICS SUBORDINATES ECONOMICS

The study of Israel's attitude toward economic cooperation with Palestine must begin long before Israel's naissance and before security was an issue. Before the state of Israel was declared in 1948, Arabs and Jews shared a territory and an economy. Jacob Metzer, in *The Divided Economy of Mandatory Palestine*, argues that while there was certainly interaction between the two peoples, there was more differentiation than intersection in terms of education, wages, and trade. In *Little Common Ground: Arab Agriculture and Jewish Settlement in Palestine 1920–1948*, Charles Kamen takes the view that any "dual economy" notion is false. This view is echoed in Zachary Lockman's *Comrades and Enemies: Arab and Jewish Workers in Palestine 1906–1948*. Jews and Arabs experienced great disparity, but their economic success and failure cannot be explained independently. Metzer, Kamen, and Lockman agree, however, that although the degree of economic cooperation between Jews and Arabs is debatable, Jewish and Arab nationalism inhibited full economic integration from the beginning.

Kamen and Lockman examine the Zionist's view of the native Arabs. While the Zionists were socialist and some sought to include Arabs in their new workers' society,

they tended to believe the Arabs were inferior by race and culture, an attitude typical of European socialists of the day. Far from seeing religious differences as contentious, the Zionists simply saw the Arabs as incidental to the region and their designs for it. Both authors cite Zionist claims before the Mandate government that Palestinians would benefit economically from Jewish migration, but do not delve into the reasons Zionists never significantly delivered on this, aside from oppression in Europe and Russia against Jews, scarcity of resources, urgency concerning their need for an independent state, and a low regard for the existing population.

Had the socialist ideology of early Zionism remained after the colonizing effort in Palestine was complete, the idea of economic peace might once again have been rekindled. The conflict was initially shaped by territorial, and consequently economic, loss. The peasant majority of Palestine was not so much deprived of property as of livelihood; most were tenants of the land they worked. After the creation of Israel, there might have been an opportunity to slowly build up economic ties with at least the most proximal Palestinians, but the 1967 War widened social rifts. It was not so much the occupation itself, but the religious zeal it ignited that fomented a new basis for conflict, apart from secular nationalism.

In *The Politics of Protest: The Israeli Peace Movement and the Palestinian Intifada*, Reuven Kaminer describes how Israel's apparently miraculous victory in the 1967 war transformed Zionist ideology from secular to religious. Settlement, thereafter, was not merely a political and economic imperative, but, increasingly, a spiritual one. Pervasive nationalism and, later, religious fundamentalism, explain why free-market interests were marginalized in the formation of the state, and consequently in the structure of the Israeli economy.

The effects of settlement and the perception of threat in acknowledging a sovereign Palestine are outlined in *Israeli Obstacles to Economic Development in the Occupied Palestinian Territories*, published by the Jerusalem Media & Communication Centre. This source focuses on the implementation of Israel's apparent strategy of strangling the Palestinian economy, but does not address the rationale for this policy,

other than quoting a 1961 admonishment by founder of the Likud and Sixth Prime Minister of Israel, Menachem Begin,

My Friend, take care. When you recognize the concept of “Palestine,” you demolish your right to life in Ein Hahores. If this is Palestine and not the land of Israel, then you are conquerors and not tillers of the land. You are invaders. If this is Palestine, then it belongs to a people who lived here before you came... You came to another people’s homeland, as they claim, you expelled them and you have taken their land.¹¹

Israeli Obstacles specifically outlines the ways in which Israel hinders Palestinian economic development, including severe restrictions on water, agriculture, and fishing and restrictions on production, marketing, industry, unionization, banking, and land use. Israel’s damaging tax policies and continued illegal acquisition of Palestinian land through settlements also damage Palestinian prosperity.

Israel’s occupation of Gaza and the West Bank are decried as devastating to the Palestinian economy in Sara Roy’s *The Gaza Strip, the Political Economy of De-Development*, B’Tselem’s *Arrested Development: the Long-Term Impact of Israel’s Separation Barrier in the West Bank* and *Under the Guise of Legality: Israel’s Declarations of State Land in the West Bank*, Raja Khalidi and Sahar Taghdisi-Rad’s *The Economic Dimensions of Prolonged Occupation: Continuity and Change in Israeli Policy Towards the Palestinian Economy*, and the United Nations Seminar on Assistance to the Palestinian People’s *The Economic Cost of Continued Israeli Occupation of the Palestinian Territory; Local, Regional, and International Efforts Towards Mitigating it*. While ostensible “security” in Israel and the Occupied Territories may appear improved since Oslo, the conflict has not. Palestinian frustration with disenfranchisement continues to boil under increased Israeli pressure. The Rand Corporation, in *Building a Successful Palestinian State* and The Palestine Studies Project’s *The State of Palestine: Suggested Guidelines for Comprehensive Development*, cites the necessity of economic development for a successful Palestinian state.

¹¹ Jerusalem Media & Communication Centre, *Israeli Obstacles to Economic Development in the Occupied Palestinian Territories*. 2nd Edition (Jerusalem: The Latin Patriarchate Printing Press, April 1994), 7.

The 1994 Oslo Accords were an attempt to absolve Israel of direct blame for the occupation and eventually establish a Palestine that would provide its own security and act as an autonomous nation-state with no further claims on Israel. However, the critical flaw in these efforts was the assumption that Palestine, whose borders are controlled by Israel, can flourish without explicit Israeli support—in other words, that the fates of Palestine and Israel are not intertwined. George Giacaman and Dag Jorund Lonning write in *After Oslo*,

The conscientiousness which led to the peace process can be deciphered through the images of the vision. This consciousness is concerned solely with the fulfillment of the Zionist dream on both the political and cultural levels. Peace was considered the end of a long nightmare, not for the Palestinians but for Israeli Jews. It enabled the liberal circles who supported the process to re-establish the self-image of Zionism as a pure and just entity. The vision was never build on the principles of partnership and equal rights; it did not include a vision of living together. Many Israelis honestly believed that the agreement would bring relief and sovereignty to the Palestinians. They truly regarded the process as the end of the occupation. Yet, they did not develop an attitude which regarded the Palestinian question as an inseparable part of their context.¹²

For Israel, trade and market interests are subordinate to political objectives in Palestine. It is because of this historically peripheral status that economics now requires particular consideration as a tangible way to make both peoples visible to one another. Yet, nowhere is it argued that an effective peace agreement must be based on something less alienating than power politics. While the Arab Peace Initiative and the Israeli Peace Initiative propose that motivations in the form of economic gains be put on the table, they fail to address the current weakness of financial incentive. Meanwhile, reports like the IVK Pax Christi's *Analyzing Israel's Economic Policy Towards Palestine* suggest that a political solution is required before economic cooperation can begin, without addressing the current lack of political will.

While market interests have little to no bearing on political will, the military certainly does, according to Jonathan Nitzen and Shimon Bichler in *The Global Political*

¹² George Giacaman and Jorund Dag Lonning, *After Oslo: New Realities, Old Problems* (West Randolph, Chicago: Pluto Press, 1998), 64.

Economy of Israel. Nitzen and Bichler redefine Marx's "capital" as sourced in power, rather than wealth, asserting that power generates wealth, rather than the reverse. In their analysis, the Israeli military is the loudest voice in Israeli politics and is concerned with accumulating and retaining power capital. High-market consolidation, meanwhile, stifles free-market competition and the emergence of private enterprise and solidifies a crony-capitalist relationship between businessmen and the political elite—who are predominately elected from the upper ranks of the military.

Interpreting Israel's policies, Neve Gordon uses Michel Foucault's notion of disciplinary "biopower," or the rise of "population," that is, diminution of the individual by the state, as the theoretical backdrop for Israel's occupation. Gordon argues that the contradictions apparent in Israel's policy spring from the excesses of Israel's control.

By excess I mean effects that are not part of the initial objective of the means of control. A curfew restricts and confines the population, but also produces antagonism; the establishment of a Jewish settlement on a hilltop is used to confiscate land, partition space, and monitor the Palestinian villages below, but also underscores that the occupation is not temporary.¹³

This book makes a convincing argument as to why there is more to Israel's deeply contradictory policy than rational-choice theory can describe.

In *The Political Economy of Israel's Occupation: Repression beyond Exploitation*, Shir Hever argues that Israel's political paralysis in addressing the conflict is due to the internal contradictions of the early Zionist movement. He writes, "From its earliest days, the Zionist movement failed to come to grips with the fact that the land of Palestine was already inhabited, and that its population is not Jewish. This has led Zionist leaders to pursue conflicting agendas and focus on short-term planning."¹⁴

Although economic cooperation surfaces in political rhetoric from Mandatory Palestine to Prime Minister Netanyahu's speeches, it has no practical significance in Israel's current political context and strategic vision. As the literature suggests, the Arab—

¹³ Neve Gordon, *Israel's Occupation* (Berkeley: University of California Press, 2008), 16.

¹⁴ Hever, *The Political Economy of Israel's Occupation*, 87.

Israeli–Palestinian conflict is centered on identity politics, supported by economics. Overemphasis on either the conflict’s nationalist or economic aspects obscures its dual nature.

C. ISRAEL’S ECONOMY: UNSUITED FOR COMMERCIAL PEACE

Apart from the challenges posed by Israel’s political economy, Israel’s market structure is particularly un conducive to integrating Palestinian markets and building the Palestinian economy. Shir Hever suggests the two economies are adverse to integration because, in essence, they are already a single economic entity stratified by varying privileges and rights. Whether they are seen as two economies or one, Israeli-Palestinian economic rights and privileges and skilled and unskilled labor tend to be bifurcated along ethnic and religious lines.¹⁵ Demographically, the Haredi, Israeli Arabs, and Palestinians suffer from poor education and, consequently, employment opportunity, in a global, innovative economy characterized by income disparity.¹⁶ As Press-Barnathan and McDonald assert, equality in terms of rights, power, and leverage is critical for economic peace.

The gross demographic disparities between the Israeli and Palestinian populations mean that not only is the labor market unattractive for Israeli business, but that Palestine has very little to bargain with economically. Still, Israeli business might find a way to capitalize on Palestinian markets if there were not a second problem: Israel has little free enterprise. Israel is characterized by high market consolidation, outlined in a variety of sources from Paul Rivlin to Bichler and Nitzan, which limits entrepreneurial access to capital. This explains why Israel’s economic policy is so dominated by public lobby groups, from the military to the Haredi. Lobbyists who represent business, like the Israeli Peace Initiative, have little sway in Israel’s political economy since the strongest of Israel’s business interests cannot be disentangled from Israel’s political elite.

An examination of the literature on Israel’s economy and political economy, coupled with literature on economic-peace theory, provides a reason why Israel’s

¹⁵ Hever, *The Political Economy of Israel’s Occupation* 5.

¹⁶ Rivlin, Paul, “The Israeli Economy” (Boulder: Westview Press, 2012), 7.

occupation of Palestine is not about economics and why economic incentive has failed to lay the groundwork for a peace agreement. Israel's political and market economy is run by special interests, from the military to a few financial groups that represent the majority of the Tel Aviv stock exchange. Subject to different forces, the economic dynamics of this conflict will inevitably change, for better or worse. Because economics drives, and is driven by, political will, economics is fundamental to any calculation of peace.

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II. NATIONALISM VS. RATIONAL MATERIALISM

The tragedy of Israel's public security debate is that we don't realize that we face a frustrating situation in which we win every battle but lose the war.

— Ami Ayalon, head of Shin Bet 1995–2000¹⁷

The clash of interests and ideologies between ethnic groups “trapped” in one state is the material from which the protracted ethnic conflicts are made.¹⁸

—Eiki Berg and Guy Ben-Porat¹⁸

James Wolfensohn, president of the World Bank from 1995 until 2005, observed, “I don't think that a state of Palestine will be based on anything other than investment.”¹⁹ Wolfensohn assumed that rational interest could steer the conflict to more manageable waters. It is appealing to think that the conflict might be transformed from a zero-sum game to a Nashian compromise by way of Smith's “invisible hand”—all Palestinians need is a homeland with viable opportunity, all Israel needs is to be recognized and stop being terrorized. Could there be a win-win? Perhaps, if the recent past—not the medieval past, where Jews, Christians, and Muslims lived peacefully together in old Palestine—but the horrific, humiliating past of the 20th century could be laid to rest, there could be. However, grievance in the Arab–Israeli Conflict is a living thing. Nationalism, which drove the Zionist enterprise and drives Israeli political ideology today, is inherently ethnocentric: it derives meaning, depth, and force from contrast with the other. To what extent the fervor of Palestinian nationalism, in many respects Israeli nationalism's mirror image, would subside if the economic *casus belli* were removed remains unknown, because economic regeneration in Palestine remains as elusive as the peace itself.

¹⁷ Dror Moreh, Director, *The Gatekeepers* (2012).

¹⁸ Eiki Berg and Guy Ben-Porat, “Introduction: Partition vs. Power Sharing,” *Nations and Nationalism* 14 (2008): 31.

¹⁹ James Wolfensohn, (October 2008) interview by Felice Freidson, “Wolfensohn Looks Back: What Went Wrong,” <http://www.youtube.com/watch?v=jyW-JXID2lw>.

Two years before Wolfensohn began his term, the freshly negotiated Oslo Accords created what seemed to be a framework on which to build a healthy relationship between the two nations. For the first time, a serious attempt was made to formalize an Israeli economic policy toward Palestine—partly since it was the first negotiation in which an independent Palestine was considered. A subset of the Oslo agreement, the 1994 “Paris Protocol,” states the importance of economics:

The two parties view the economic domain as one of the cornerstones in their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace. Both parties shall cooperate in this field in order to establish a sound economic base for these relations of mutual respect of each other’s economic interests, reciprocity, equity and fairness.²⁰

Twenty years later, however, a cooperative economic basis on which to establish mutual respect seems unreachable, much less a just, lasting, and comprehensive peace. In 2005, the U.S. Institute of Peace observed, “Increasingly, Israelis are opting for guarantees for their personal security (the fence) and the Jewish nature of the state (unilateral withdrawal) over the aspiration to ‘end the conflict.’”²¹ The rise of Hamas, anti-Israeli violence, and the lack of improvement in Israeli–Arab relations seem to signal that the protocol’s economic path to peace is no more than another dead-end. Despite investment, Palestinians appear resistant to progress.²²

The reality, however, is more complex. A study conducted by the World Bank in 1999 found that Israel engaged in protectionism, levied disproportionately high taxes on Palestinian goods, and severely restricted Palestinian trade with other Arab states.²³

James Wolfensohn witnessed Israel’s economic anti-cooperation firsthand. In 2005, he was invited by President Sharon to supervise the transfer of assets in Gaza to the

20 Ministry of Foreign Affairs, “Gaza-Jericho Agreement,” www.mfa.gov (1994).

21 Yossi Alpher, *The Future of the Israeli-Palestinian Conflict: Critical Trends Affecting Israel*. Special Report (Washington, DC: United States Institute of Peace, September 2005), 5.

22 Mazul Mualem, “Netanyahu to PA; Israel Boycott is Only Hurting Yourselves” *Haaretz*, May 24, 2012.

23 Ephraim Lavie, “The Israeli-Palestinian Economic Agreement and Current Consequences,” Edited by Paul Rivlin and Yitzhat Gal, *Middle East Economy* 3 (2013).

Palestine Authority and act as a mediator in negotiations between Israel and Palestine on transit routes and other economic-development activities in Gaza.²⁴ Wolfensohn raised \$9 billion to bolster the Palestinian economy. His commitment to the project even included \$500,000 of his own investment toward greenhouse agricultural production in the Gaza strip. Despite these efforts, the project shriveled on the vine. Wolfensohn recalls:

I remember seeing the greenhouses with the chairman [Abbas] and looking at the fruits and everything, and there was a joyous atmosphere: “Boy, we’re about to get this thing going and we’re going to have hotels by the beaches and we’re going to have tourism and it’s going to be fantastic, and the Palestinians really know how to be hosts.” But in the months afterward, first of all Arik [Sharon] became ill and the current prime minister came in, and there was a clear change of view...Instead of hope, the Palestinians saw that they were put back in prison. And with 50 percent unemployment, you would have conflict. This is not just a Palestinian issue. If you have 50 percent of your people with no work, chances are they will become annoyed. So it’s not, in my opinion, that Palestinians are so terrible; it is that they were in a situation where a modulation of views between one and the other became impossible.²⁵

The structure of Israeli politics is at least partly to blame. Israel’s coalition government seems to be determined by domestic issues rather than issues related to Palestine or peace. Thomas Freidman observed in *From Beirut to Jerusalem*, “Whereas in Lebanon the cabinet was ineffectual because it represented no one, in Israel the cabinet was ineffectual because it represented everyone.”²⁶ When politicians who work toward economic cooperation do manage to consolidate support, their good ideas seem to wither without constant tending, as Wolfensohn’s experience demonstrates. Oslo’s rhetoric echoes in statements by Prime Minister Netanyahu, such as:

We must weave an economic peace alongside a political process. That means that we have to strengthen the moderate parts of the Palestinian

24 Shahar Smootha, “All the Dreams we had are now Gone,” *Haaretz*, July 19, 2007.

25 Smootha, “Dreams now Gone,” 1-3.

26 Thomas Freidman, *From Beirut to Jerusalem* (New York: Random House, 1990), 253.

economy by handing rapid growth in those areas, rapid economic growth that gives a stake for peace for the ordinary Palestinian.²⁷

But little has changed since 1992, when the Center for Engineering and Planning for the Palestine Studies Project concluded,

Above all, industrial development has been constrained by the absence of a national strategy which identifies objectives and denies direction, and the reluctance to make significant investments in industry due to the uncertainty and lack of stability resulting from the prevailing political situation.²⁸

Yet, considering the acknowledged importance of economics in international relations, state formation, and ties between the structural power of capital, GDP, and politics, it is remarkable that economics never overcame the gridlock to become a central issue, rather than a talking point. Even after good economic intentions had been freshly proclaimed in the 1994 protocol, economic progress in Gaza lagged deplorably for several months.

Early warnings by Israeli and other experts that “Palestinian anger is stoked by poverty” were ignored, as were arguments by Israeli economists that “For growth, the Palestinians must have open borders with Israel...[because] if you separate them [the two economies], one of them will die and it is obvious that that one will be the Palestinian economy.”²⁹

Sara Roy argues in *The Gaza Strip: The Political Economy of De-Development* that Israel’s apparent hesitation to jumpstart the Palestinian economy is not attributable to corruption or a lackadaisical attitude, but to Israeli strategies that actively handicap growth in Gaza and have resulted from social resistance to the idea of integration. Roy writes of Israeli policy toward Gaza since 1967,

For better or worse, Israel never sought to promote the interaction of Palestinian society with its own, and through such interaction, to educate and “enlighten” Palestinians. It did not even seek to exploit the Palestinians for economic gain, although that did occur. Rather, it sought

27 R. Ahren, “Netanyahu: Economics, not Politics is the Key to Peace,” *Haaretz*, November 21, 2008.

28 Palestine Studies Project, *Masterplanning: the State of Palestine, Suggested Guidelines for Comprehensive Development* (Ramallah: Center for Engineering and Planning, 1992), 49.

29 Charles D. Smith, *Palestine and the Arab-Israeli Conflict: A History with Documents* (Boston: Bedford/St. Martins, 2001), 441.

primarily to dispossess the Arabs of their economic and political resources with the ultimate aim of removing them from the land, making possible the realization of the ideological goal of building a strong, exclusively Jewish state.³⁰

Ian Lustick concurs:

The decision of the government not to push hard for the economic development of the Arab sector was largely based on a desire to prevent the emergence of Arab-owned centers of economic power. The attitude of the Military Administration, for example, toward economic development was that it should be “carried out in such a way as not to create a self-contained Arab economy, for this would encourage hostile activity.”³¹

Taken at face value, the cooperative rhetoric used in Oslo conflicts with the reality of Israel’s actions in the occupied territories. The plaintive question asked is, “Why has the implementation of commercial peace always seemed to fail?” A better question is, “Why has the implementation of commercial peace always lacked allure?”

Amin Hewedy, the Egyptian former minister of defense and chief of general intelligence writes:

Shortly before his death in 1904, Theodor Herzl [the modern conceptual founder of Israel] wrote about the dangers besetting the future state of Israel at its inception, dangers which may also prove to be the cause of its demise. He focused on two chief dangers and cautioned future generations to avoid them. The dangers emanated from what he termed men of religion and the men of war. Herzl noted that on concluding the performance of their respective roles in establishing the state, both sides will attempt to gain control over it. He went on to state that should that happen, the secular fundamentals on which the state was build would collapse completely. For these reasons, he believed it necessary to confine the rabbis to the synagogues, just as the military should be limited to the barracks.³²

30 Sara Roy, *The Gaza Strip: The Political Economy of De-Development*, (Washington, DC: Institute for Palestine Studies, 1995), 5.

31 Lustick, Ian, *Arabs in the Jewish State: Israel’s Control of a National Minority* (Austin: University of Texas Press, 1982), 184.

32 The Center for Policy Analysis on Palestine, “After Oslo: Israel’s Plans in the Middle East: Symposium Proceedings,” Edited by Hisham Sharahi (Washington, DC: The Center for Policy Analysis on Palestine, 1997), 3.

Herzl's fears have been realized. Not only has secular national identity been weakened by increasingly pervasive religious ideology, Israel's military-industrial complex has become ubiquitous in the economic and political sphere. Most alarming, however, is the apparent alliance of the men of war with the men of religion in a decision-making process that is "unplanned, intensely political, informal, and led by a prime minister who rules at the mercy of his party and his coalition, and is driven by the military, which holds a monopoly on policymaking."³³ To understand this transformation, and its significance, it is necessary to begin at Israel's beginning.

A. IMAGINING ISRAEL

If nation-states are widely conceded to be "new" and "historical," the nations to which they give political expression always loom out of an immemorial past, and still more important, glide into a limitless future.

—Benedict Anderson³⁴

Whether or not it happened one way or another, no memory has a country, no country has a memory. I can remember or invent a memory, and at the same time invent a country or think that in the past it was different. There is no country that can be different if it was first not different.

—Yoram Kaniuk, *1948*³⁵

If rational, material interests guided the conflict, it probably would never have begun at all, and if such interests guided the conflict today, it would be far easier to solve—hence the current appeal of economic peace among political leaders and institutions. But the majority of writing on the Arab–Israeli conflict focuses on politics because, to begin with, Israel was not founded as a mere business venture, although prosperity has always been a key part of Israel's welfare. The motivation was a dream: the dream of a Jewish nation-state.

³³ Freilich, Charles D. *Zion's Dilemmas: How Israel Makes National Security Policy*, Cornell University Press, 2012, quoted by Aluf Benn in "Israel's Warlords: How the Military Rules in War and Peace."

³⁴ Benedict Anderson, *Imagined Communities: Reflections on the Origins and Spread of Nationalism* (New York: Verso, 2006), 13.

³⁵ Yoram Kaniuk, translated by Anthony Berris, *1948* (New York: The New York Review of Books, 2010).

The formation of this nation-state tells us two things. First, that the ethnic exclusiveness of this nation-state was antithetical to broad economic integration with the native Arab population. Second, that although the transformation of Israel's nationalism suggests that the Israeli identity is in constant flux (what Adam Garfinkle calls an "autogenic dialectical relationship") the religious character of this change, which tends to be non-negotiable and passionately felt, has made a resolution more elusive over the last decades.³⁶

While economic cooperation was unattractive before Israel was officially recognized because it ran counter to socialist goals that sought to establish a distinct, majority-Jewish, agriculturally-based economy, once Jewish majority cities were established around a high-technology, post-industrial economy, Israel's relationship to the land altered, as did the reasons Israel remained resistant to economic cooperation. The early Zionists optimistically believed that a solution would be found in the future, but that the imperative of the hour was to create a Jewish homeland. Today, Israel is unclear about her ambitions. Military success and a large influx of Orthodox believers have blurred the horizon. As ownership of the land waned in economic importance, it waxed in emotional significance. Increasingly, Palestine, and then Israel, were seen not just as a rural piece of earth, subject to possible colonization, but as the sacred, God-given lands of ancient prophecy.

Although the religious aspects of the Arab-Israeli conflict dominate popular imagination, the men who founded Israel were secular, influenced by the rising, global tide of modern state nationalism. These Zionists, as they called themselves, were affected by nationalism in two ways. They witnessed the racism it generated toward European and Russian Jewry, and they used it as the inspiration for their own Jewish nation-state. Rather than tolerate persecution in their places of birth, these intellectual, secular Jews settled upon the region of Palestine as a culturally significant, rather than primarily religiously symbolic, place to take root. However, even as nationalism successfully created culturally and economically cohesive states in Europe, its excesses fueled the

36 Adam Garfinkle, *Politics and Society in Modern Israel* (New York: M.E.Sharpe, Inc., 1997) 7.

world wars. Likewise, Jewish nationalism has in many ways led to Israel's success by uniting a diverse population under an exclusive banner. Yet the strength of the Jewish-Israeli identity has come at the cost of a persistent, intractable problem—it was antithetical to the embrace of the Other—the native Arabs inhabiting the majority of the land.

Today, secular Zionist nationalism has given way to a religious nationalism that has rewritten Israel's narrative, obfuscated the fundamentally modern nature of the conflict, and propagated the idea that the conflict is insoluble because it manifests the clash between two immutable identities. U.S. presidential candidate Mitt Romney's 2012 address to Israel, "As I come here and I look out over this city and consider the accomplishments of the people of this nation, I recognize the power of at least culture and a few other things," represents this lack of nuance.³⁷ Before the resurgence of Modern Hebrew between 1890 and 1914, widely attributed to Eliezer Ben-Yehuda, the nation of Israel shared neither a common tongue, nor even a common faith, as most Zionists were secular atheists.³⁸ The evolution of Israeli culture is indeed remarkable, but, like any identity, it is both fluid and self-referential. The recent emergence of religious-ethnic nationalism bodes poorly for the prospect of economic peace because it frames the conflict in terms of the metaphysical, undermining the rational, materialist elements in both Israeli and Palestinian nationalisms.³⁹

Identity politics is particularly important for Jewish Israelis because, unlike the United States, to which in popular media and politics it often has been compared, Israel is an ultra-modern state and a state with an ancient memory.⁴⁰ In the way it was and is imagined, Israel has as much to do with its prehistory than its existence post-1949. Alfred

37 Harriet Sherwood "Mitt Romney's 'providence' comments in Israel outrage Palestinians: Speech in Jerusalem puts Israel's economic success down to 'power of at least culture and a few other things,'" *The Guardian*, July 6, 2012.

38 Mosche Nahir, "Micro Language Planning and the Revival of Hebrew: A Schematic Framework" in *Language and Society*, Vol. 27, No. 3 (Sep., 1998), pp335–337, 335.

39 Mark Jurgensmeyer, *Terror in the Mind of God: The Global Rise of Religious Violence* (Berkeley: University of California Press, 2003).

40 Richard Ben Cramer, *How Israel Lost: The Four Questions* (Sydney, Simon & Shuster, Inc. 2004), 5

Balfour, architect of the Balfour Declaration, infamously wrote to Lord Curzon in 1919, “The four Great Powers are committed to Zionism. And Zionism, be it right or wrong, good or bad, is rooted in age-long traditions, in present needs, in future hopes, of far profounder import than the desires and prejudices of the 700,000 Arabs who now inhabit that ancient land.”⁴¹ Ancient history is not only a backdrop to how Israel was imagined abroad, Israel’s own self-image, whether of secular or religious hue, is shaped by a long, often-horrific history of racial and ethnic persecution. “While Americans can’t easily remember the past, Jews can’t easily forget it.”⁴²

This collective memory extends to the Diaspora, which has yielded vast influence in Israel’s domestic and international politics. In the early 90s, for example, there were more Jews in the New York City metropolitan area than in Israel.⁴³ To make matters more complicated, Jewish identity collapses religion and ethnicity.

There are Israeli citizens who are not Jews—about 17 per cent are Arabs, mostly Muslim but many Christian—but clearly Israel is a self-described Jewish state and was created as such. Jews can be set in distinction to Muslim, in which case one is contrasting religion, and Jew can just as ready be set in distinction to Arab, in which case one is contrasting ethnicity.⁴⁴

This loose categorization of the Jewish ethnic and religious identity makes Israeli nationalism a particularly persistent obstruction to the embrace of a multicultural, fully secular state. Not only are Jews different from Arabs ethnically, they are, by default, different in terms of faith, and both of these differences have a significant impact on perception of identity and identity politics.

The single thing the U.S. and Israel fully share is they both came into being by declaration, not, as the older powers have, through organic political evolution over centuries. For Israel’s founders, creating Israel, an idea that originated from the confidence and idealism of 19th-century continental philosophy, was a radical and

41 Norman Rose, *Palestine Papers, 1917–1922: Seeds of Conflict* by Doreen Ingrams, reviewed by: Norman Rose. *The American Political Science Review*, Vol. 69, No. 4 (Dec., 1975), pp. 1480–1481.

42 Garfinkle, *Politics and Society in Modern Israel*, 19.

43 Garfinkle, *Politics and Society in Modern Israel*, 4.

44 Garfinkle, *Politics and Society in Modern Israel*, 5.

proactive solution to the long, torturous, and cruel history of Jewish persecution. The term “Zionism,” from the Hebrew *Tziyon* or “Jerusalem,” emerged in the 1890s to describe a new Jewish nationalism.⁴⁵ Unlike religious groups such as the modern Israeli Hasidim, many of the original Zionist thinkers were, like Karl Marx himself, informed by their Jewish identity but highly secular, universalist, and idealistic.

The Zionists’ essentially revolutionary purpose was to create a socialist, egalitarian, agrarian, industry-heavy society, completely free of the political and economic constraints of Europe and Russia. In Europe and the East, the Diaspora had been granted some new freedoms under growing European secularism, but continued to suffer political and social marginalization. European and Russian Jewry were limited to bourgeois ambitions—service enterprises like moneylending, petty trade, and academia.⁴⁶ Zionists not only saw opportunities in agriculture and industry as essential to the economic liberation of Jews from Russian and European anti-Semitism, but viewed bourgeois and intellectual occupations as parasitic and morally bankrupt.⁴⁷ “The key to normalizing the Jewish social structure was agriculture, and the soil of Eretz Israel seemed to most to have almost magical powers of healing and spiritual renewal.”⁴⁸ The land, therefore, was not only imbued by Zionists with ideological significance, but with economic import.

The land they settled upon, Palestine, described a geographic area within the region of Syria under Ottoman rule from the year 1516 until the end of the First World War. The collapse of the Ottoman Empire redefined the region. Under the new British mandate designated by the League of Nations from 1920 to 1948, Palestine’s formal political and economic borders solidified around a population that was still majority Arab and minority Jewish.⁴⁹ For Jews, this region, known in Hebrew as Eretz Yisra’el, has

⁴⁵ Zachary Lockman, *Comrades and Enemies: Arab and Jewish Workers in Palestine 1906-1948*, (Berkeley: University of California Press, 1996), 23.

⁴⁶ Lockman *Comrades and Enemies*, 40.

⁴⁷ Rivlin, Paul, *The Israeli Economy* (Boulder: Westview Press, 2012), 2.

⁴⁸ Garfinkle, , *Politics and Society in Modern Israel*, 40.

⁴⁹ Lockman, *Comrades and Enemies*, 3.

always been sacred, yet orthodox Jews believed only God could restore their ancestral homeland.

For the few Jews who lived in Palestine, as for virtually all Jews before the modern era, only the end of history as manifested in the coming of the messiah could bring about the termination of “exile” and its attendant sufferings, the redemption of the Jews, and their restoration to the land which God had promised to their ancestors but from which they had—also by divine decree —been uprooted.⁵⁰

Secular Zionism, however, was free of religious solemnity. Between 1850 and 1950, “Zionist ideology congealed, and it did so in the direction of socialist, or labor Zionism. It borrowed heavily from the socialist ideologies then most popular among intellectual classes in Europe. The elements of this ideology are extremely important to grasp, for they have carved out a deep legacy in modern Israel.”⁵¹ The historical land of Israel, however, served as a rallying point for the Diaspora and Christian supporters. “The founding fathers of modern Zionism and the State of Israel were almost all of them atheists or religiously indifferent, although their legitimization of the Zionist enterprise in the biblical narrative and record was always a powerful driving force to gain national support.”⁵²

Ironically, the Zionists’ vision of a bucolic, egalitarian society for persecuted Jews required a regime of social marginalization for non-Jews; imposing the very dynamic Jews were seeking to escape in the West on a new Other. Yet this contradiction was ignored by Zionists and the majority of late 19th century socialists.

Before the First World War, relatively few socialists opposed colonialism in principle or rejected its underlying premises, and most shared with their avowed class enemies a firm belief in the superiority of European civilization and the consequent right (if not duty) of Europeans to rule over less advanced peoples.⁵³

⁵⁰ Lockman, *Comrades and Enemies*, 23.

⁵¹ Garfinkle, *Politics and Society in Modern Israel*, 39.

⁵² Nur Masalha, *Imperial Israel and the Palestinians: The Politics of Expansion, 1967–2000* (London: Pluto Press, 2000.), 110.

⁵³ Lockman, *Comrades and Enemies*, 43.

Early Zionists, like Ber Borokov, justified colonialism through an elaboration of Marxism. In his 1905 publication, “The National Question and the Class Struggle,” he extended the Marxist concepts of “relations of production” and “forces of production” to include “conditions of production,” laying a foundation for an argument that national territory was prerequisite to the ultimate goal of socialist revolution. Like other Marxists of the Second International, Borokov viewed history as an inexorable force driven by mechanistic, economic, and positivist evolutionary factors, as opposed to individual human will or agency. His theories were intended for his Jewish anti-Zionist critics, including almost all the Jewish-Russian socialists, who saw Zionism as a reactionary distraction from the impending Russian revolution, and from the Bund, the independent Jewish socialist party popular in Eastern Europe, which denounced Zionists for acquiescing in the European and Russian premise that Jews and non-Jews were incapable of living together as equals.⁵⁴

Like Borokov, Asher Ginsberg, an influential Hebrew essayist and publicist of Hibbat Tziyon, acknowledged the issue of the local population, although he still called for Jewish settlement. After a visit to Palestine in 1891, he derided Jewish settlers for treating the locals with disdain and even cruelty. However, mention of the natives was more often omitted altogether. Early Zionists like Theodor Herzl, Nachman Syrkin, and Max Nordau simply rendered the Palestinian population invisible.⁵⁵ Zachary Lockman argues that the general exclusion of the native people from Zionist discourse was not due to lack of awareness of their presence (although some Zionist writers had never been to Palestine and may have been ignorant of their presence). Rather, it better served Zionist purposes to view the land in terms of lacking *a* people, a group with a distinctive national identity⁵⁶—if not in the literal sense of lacking inhabitants, as the famous “a land without a people for a people without a land” might suggest. This characterization became the genesis and crux of the present dispute. Charles Kamen writes in *Little Common Ground*,

⁵⁴ Lockman, *Comrades and Enemies* 40.

⁵⁵ Lockman, *Comrades and Enemies* 30

⁵⁶ Lockman, *Comrades and Enemies* 31.

“As subsequent events have shown, the basic dilemmas resulting from the joint claims of Arabs and Jews to the same territory have not yet been resolved.”⁵⁷

Without having visited Palestine, Ber Borokov also believed that the local population would cooperate economically with the influx of Jews. Like Ginsberg, his solution to the two-people, one-land dilemma was regional economic growth to benefit all. He wrote:

The inhabitants of Eretz Yisra’el will adapt themselves to the economic and cultural type that seizes a dominant economic position in the country. The natives of Eretz Yisra’el will assimilate economically and culturally with whoever brings order to the country, whoever undertakes the development of the forces of production of Eretz Yisra’el.

He concludes:

It is the Jewish immigrants who will undertake the development of the forces of production of Eretz Yisra’el and the local population of Eretz Yisra’el will soon assimilate economically and culturally to the Jews.⁵⁸

Borokov’s reasoning has a haunting resemblance to defense minister Moshe Dayan’s belief that “economic development and better living conditions would replace the Palestinian desire for political rights.”⁵⁹

Yet, Borokov and other Zionists’ own beliefs suggest that he partly was right. Identity, even the ancient Hebrew identity, is subject to influence by a socio-economically dominant society, as the influence of European assumptions about social hierarchy on Zionist thinking would suggest. Practically speaking, the Zionists made no attempts to integrate Palestinians into their private enterprises or otherwise include the native Arabs in the benefits of Jewish-led prosperity. If they had, perhaps the Palestinians in the West Bank and Gaza might be more moderate today. In 2013, according to Gallup, just 20 percent of Jewish Israelis strongly supported a return to the negotiating table, compared with 32 percent of Gazans and 63 percent of West Bankers. The largest

⁵⁷ Charles Kamen, *Little Common Ground: Arab Agriculture and Jewish Settlement in Palestine 1920–1948* (Pittsburg: University of Pittsburg Press, 1991), 9.

⁵⁸ Lockman, *Comrades and Enemies*, 42.

⁵⁹ A Arnon, “Israeli Policy Towards the Occupied Palestinian Territories: The Economic Dimension, 1967–2007,” *The Middle East Journal* 61, no 4 (2007), 580.

majority in favor of reopening the peace process, at 63 percent, are Arab Israelis, the only Arab group that shares the benefits of the majority-Jewish Israeli economy and political system.⁶⁰

Amos Nadan in *The Palestinian Peasant Economy Under the Mandate: A Story of Colonial Bungling*, argues that Jewish immigration had a net-zero effect on economic growth in the mandate region while Jacob Metzger and Oden Kaplan only contend in *Mesheq yehudi u-mesheq 'aravi beerez ishrael: Tozar, ta'asuqa u-ezmihah betqufat hamandat* that the net growth rate in Palestine was due to the “spillover effects” of Jewish land sales and Jewish innovation into the “Arab economy.”⁶¹

Resident Arabs quickly recognized the symbolic significance of Jewish land acquisition, even while its effects were still marginal. As a result of their exclusion under Jewish nationalism, Palestinians began to develop their own.⁶² In a second trip in 1911, Ginsberg warned readers of a growing national consciousness among Palestinians that would make land acquisition more difficult for Jews.⁶³ Just as Jews formed an ethnic nationalism in response to Western oppression, Arabs began to create an ethnic nationalism in response to marginalization by Jews. While still under Ottoman rule, local journalists warned of the potential danger from the rural population of land purchases, before much displacement had actually occurred.⁶⁴ By the mandate period, Arabs began to respond to immigration with increasingly violent protest. In response, the Jewish labor movement created its own defense force, which became the foundation for the Israeli army. Prophetically, state protection evolved from economic protection.⁶⁵ Politically, meanwhile, Zionists casually dismissed Arab claims to a Palestinian national identity.

⁶⁰ Lydia Saad and Elizabeth Mendes, “Israelis, Palestinians Pro Peace Process, but Not Hopeful” Princeton, N.J.: *Gallup*, 2013.

⁶¹ Gottheil, Fred, *Middle East Quarterly*, Spring 2008 <http://www.meforum.org/1910/the-palestinian-peasant-economy-under-the-mandate>.

⁶² Lockman, *Comrades and Enemies*, 43.

⁶³ Lockman, *Comrades and Enemies*, 36.

⁶⁴ Kamen, *Little Common Ground*, 7.

⁶⁵ Rivlin, *The Israeli Economy*, 1.

Historical writing and research typically sees the ensuing conflict between the two groups from either Israeli or Palestinian perspective and cites a “dual society,” including a dual economy. Zachary Lockman argues that these views are subjective and partly due to scholars’ tendency to speak either Hebrew or Arabic, but not both. More importantly, the history of each side is deeply political.

Without suggesting perfect symmetry between the two sides, it is nonetheless the case that the grip of mythologized national pasts on both Israeli Jews and Palestinian Arabs has until very recently been quite strong, making it difficult even for those historians who regard themselves as fully committed to the norms of objective scholarship to transcend, or even perceive, the nationalist filters through which they understood the past. Moreover, on both sides’ perceptions of day-to-day experience, especially the threat or reality of hostility and violence by members of the other group, have served to constantly reconfirm and give new strength to the dominant nationalist narratives, adherence to which thereby becomes a matter of both common sense and survival.⁶⁶

Identity on both sides has been made a tangible thing: The Israeli identity is vested with certain material rights, the Palestinian identity is marked by divestment of material rights. In any political discussion of economic peace, these differences in material reality are as important as the dollar amount of investment, the exchange rate, or access to channels of international trade; in many ways, identity is the summation of a range of economic disparities.

But identity is the most difficult thing to penetrate. The material reality attached to identity serves to reify it. For example, an Israeli passport is a signifier of being an Israeli: it is a material reality that gives meaning to the idea of being “Israeli.” Likewise, while it is easy to claim the influence of “nationalism,” which describes a course of action, it is hard to comprehensively describe a “nation,” which describes an idea.⁶⁷ A nation’s complexion, as Benedict Anderson noted, is an amalgamation of the imaginings of its people.⁶⁸ Economic interaction, far from existing in a vacuum, is seen through the

⁶⁶ Lockman, *Comrades and Enemies*, 7.

⁶⁷ Walker Connor “A Nation is a Nation, is a State, is an Ethnic Group...” In *Ethnocentrism: The Quest for Understanding*, by Walker Connor (Princeton, NJ: Princeton University Press, 1994).

⁶⁸ Anderson, *Imagined Communities*, 25.

prism of identity. A negative exchange between fellow compatriots may be dismissed as an exception, while a positive exchange between a perceived enemy may be viewed as manipulative, etc. What begins as an idea can quickly become a reality as the perception of interaction forms the basis of further exchange.

For a century, economic interaction between Palestinians and Israelis has reified ethnic and national difference. Rights, power, and voice have been delineated by identity. Differences that were once slight in Old Jerusalem have become monstrous: as seen in the increasing division between east and west quarters. The challenge for economic peace is to create a context that is free of identity politics and nationalism, a clearing where these powerful abstractions are left at the door in favor of personal material and economic interests.

If a nation truly is a kind of factory of the imagination, there is no reason why it cannot be retooled. Israel is the ultimate example of a nation that was built on an idea. In its dramatic birth, Israelis boldly forged ahead into an unknown. Yoram Kaniuk writes in 1948, “When we were awakened we were sent off to fight another battle and again we forgot why, and that was the funniest thing that happened to me in the war, that I established a state while asleep and dancing the *hora* next to an unknown comrade who’d been sliced into two.”⁶⁹

B. A CENTURY OF “ECONOMIC COOPERATION” DOUBLETALK

Nahum Goldmann, a prominent member of Israel’s 1950s political scene, once proposed that Israel become the “Middle Eastern Switzerland,” peaceful with the U.S., the USSR, and its Arab neighbors. His vision of peace ruled by economics was shared by many of his predecessors and contemporaries, and will likely remain a hope in the decades to come.

In his early years, Goldmann believed that a resolution between Israel and Palestine leading to economic peace could only be imposed by the United States.⁷⁰

⁶⁹ Kaniuk, 1948, 256.

⁷⁰ Uri Avnery, Uri, “Peace and Watermelons: U.S.-Israeli Riddle – Op ed,” *Eurasia Review*, February 22, 2013.

However, like Britain, the U.S. has proven incapable of crafting a lasting agreement, probably because the sources of the conflict are never addressed.⁷¹ Palestinian nationalism, increasingly of a religious hue, is a red herring the Palestinians have too often headlined in the most reactionary ways, obfuscating the material reality of the conflict. If ethnically-aligned nationalism is the seed of the conflict, economic disparity is the soil in which it takes root. Moreover, while nationalism cannot be ignored, like fundamentalism, it cannot be negotiated directly. Twenty years have passed since the Jerusalem Media & Communication Centre found that the conflict was not exclusively ethno-religious and rather,

...is, above all, territorial. With the failure of the international community to pressurize Israel to implement the host of international resolutions adopted by the United Nations (UN) Security Council...consequences of the Israeli military occupation have gone largely unchecked and unhindered for the past 25 years.⁷²

However, Israel's political relations with the Arab world have stalled because Israel is sometimes unable, sometimes unwilling, to address the economic causes of Palestinian grievance.

A review of early Arab-Jewish economic interaction clarifies the material aspect of the conflict; however, although the rhetoric around economic cooperation remains remarkably the same, the stakes have changed. Nationalism and emotional attachment have encroached on the material rationales for land acquisition, and these interests cannot be satiated by mere increases in production or GDP. A shift by all interested parties in perception of land from symbol to economic entity, although it certainly is both, would help simplify the conflict and allow for a solution. Israel/Palestine's early history makes it clear that economics has always played a role in the conflict's political development.

Palestine's early historical records make it clear that resident Arabs' fundamental grievance was that Jewish immigration posed a direct threat to their livelihood. In 1939,

71 Avnery, "Peace and Watermelons."

72 Jerusalem Media & Communication Centre, *Israeli Obstacles to Economic Development in the Occupied Palestinian Territories*, 2nd Edition, (Jerusalem: Jerusalem Media & Communication Centre, 1994), 1.

Britain, the imperial mediator in the region, appointed the Shaw Commission to investigate the reason for an outbreak of Arab riots. As might be expected, the commission found “racial animosity on the part of the Arabs, consequent upon the disappointment of their political and national aspirations and fear for their economic future.” As the Jewish Virtual Library summarizes, “The report claimed that the Arabs feared economic domination by a group who seemed to have, in their perspective, unlimited funding from abroad.”⁷³ While Jewish–Israeli nationalism was solidified by economic exclusion in Europe, Palestinian nationalism congealed over their economic exclusion by the Jews. Thus, the conflict is primarily based on economic marginalization, from which the virulence of ethnic nationalism sprang only later.

Following a string of British-appointed commissions that examined Palestine’s agricultural capability, the position of director of Palestinian development was created and filled by Lewis French. French’s 1931 report recognized the impending crisis for those who became known as the “landless Arabs.”

If the class of landless Arabs had to be provided for by Government on any scale, it is obvious that land on which they are to be settled must be forthcoming: and the general question at once arises where the land can be obtained for them, as well as for immigrant Jews.⁷⁴

The Zionists’ proposed solution was again economic. The newly established Zionist advocacy group, the Jewish Agency, responded in a memo,

Those who are anxious to provide for the future of the growing Arab population of Palestine can, therefore, from the economic point of view, do nothing better than promote Jewish immigration, capital import, and the technical advancement of manufacture and agriculture... the more rapid the pace of economic progress, the greater the total population which will be finally absorbed and maintained in the country.⁷⁵

This rosy, almost neo-liberal, vision of economic peace is echoed by Daniel Doran, founder of the Israel Center for Social and Economic Progress, public figure, and

⁷³ The Jewish Virtual Library, “The Shaw Commission, 1930” www.jewishvirtuallibrary.org, .Accessed 3/8/2013.

⁷⁴ Lewis French, “First Report on Agricultural Development and Land Settlement in Palestine,” Jerusalem, December 23, 1931. <http://www.israeled.org/PrimarySource/frenchfirst.pdf>.

⁷⁵ Kamen, *Little Common Ground*, 73.

political supporter and economic advisor to Prime Minister Netanyahu, in his diagnosis of the current MENA malaise.⁷⁶

Western policymakers must refocus their attention on combating the root causes of Arab authoritarianism: Holding free elections in the region is less important than the advent of market economies. Free enterprise not only empowers citizens vis-à-vis the government but also facilitates crucial cultural, social, religious, and psychological changes conducive to democracy. Moreover, sustained economic growth and prosperity is the only proven method of bringing about true reconciliation between hated enemies (just look at Europe in the latter half of the twentieth century).⁷⁷

While Doran makes the very legitimate point that the structural power of capital is needed to alter MENA political systems, when economic growth is driven by international investment and trade (as is Israel's economy post Oslo), it tends to hollow out the middle class base of an economy while strengthening the minority elite.⁷⁸ If the middle class is the prime mover in politics, economic goals should promote small enterprise, not simply clear the path for stronger, foreign corporations to employ a labor force with stymied opportunity. Certainly, Doran does not imply that this would be accomplished merely through foreign investment and trade. However, if the problem is crony capitalism and corrupt state-run corporations, how else should the market break free from political control?

Also inherent in this argument is the assumption that prosperity and the growth of free enterprise mitigate nationalism. Examples throughout history, like the Pig War between pre-war Serbia and Austria, would suggest otherwise.⁷⁹ Certainly, Israel's own economic policy toward Palestine has embodied skepticism toward this proposition. While there is an important relationship between prosperity, free markets, and peace or conflict, the cause and correlation should not be conflated. Are markets free from

⁷⁶ The Israel Center for Social & Economic Progress, *ICSEP Facilitates Crucial Economic Reforms and Helps Overcome Resistance to Them*, <http://icsep.org.il>.

⁷⁷ Daniel Doran, "Free Markets can Transform the Middle East, *The Middle East Quarterly* XIX, no. 2 (Spring 2012), 22.

⁷⁸ Shir Hever, *The Political Economy of Israel's Occupation: Repression Beyond Exploitation* (New York: Pluto Press, 2010), 79.

⁷⁹ Laurence Lafore, *The Long Fuse: An Interpretation of the Origins of World War I* (Long Grove, IL: Waveland Press, Inc., 1997), 148.

political-nationalist grip the mirror of a society free from nationalist *casus belli*? Or does an increase in prosperity tend to quell popular grievance? Walker Connor's criticism of commercial peace is that it fails to account for a plethora of cases in which an increase in the prosperity of a relatively strong nation leads to an increase in nationalism. By contrast, there are few states that begin weaker than their neighbors for whom prosperity intensifies nationalism.⁸⁰ Relative prosperity seems to be more important than gross levels of growth on both sides—perhaps an unpalatable idea to Israeli diplomats whose mandate is to strengthen Israeli interests in all areas.

History shows that nationalism and economics are inextricable. In 1936, the Palestine Royal Commission (the Peel Commission) was charged with investigating the “underlying causes of the disturbances” between Jews and Arabs under the Mandate. The report devoted the bulk of its attention to land, supporting a policy prohibiting sales to Jews of Arab lands in the already-congested hill territories, and, for the first time, maintained that Palestine should be partitioned between the two peoples.⁸¹ The Peel Commission repeatedly emphasized that the rapid deterioration of the Jewish–Arab relationship was the direct consequence of the economic marginalization of one ethnic group by another. The Peel Commission observed that the crux of the conflict was both economic and ethnic. Political and economic marginalization always results in improvement or deterioration of the dynamic between groups.

C. THE GENESIS OF A MILITARY STATE

In the Six Day War, I was in Operations. The Arabs surrendered and we were suddenly left without an enemy. You're like a dog in a race, looking for the rabbit. The rabbit goes underground and the dog can't find it. We were like that.

—Avaham Shalom, Head of Shin Bet 1980–1986.⁸²

⁸⁰ Walker Connor, “From a Theory of Relative Economic Deprivation Towards a Theory of Relative Political Deprivation,” In *Minority Nationalism and the Changing International Order*, by eds. M. Keating and J. McGarry (New York: Oxford University Press, 2001).

⁸¹ Kamen, *Little Common Ground*, 60.

⁸² Moreh, *The Gatekeepers*.

Ironically, although solutions through economic peace have been the latest tack adopted, the economic aspect of the conflict has never been more peripheral to Israeli politics. In the 1930s, the idea that Jewish-led prosperity could unite the territory seemed plausible. Today, not only has the symbolic significance of the land swelled, Israel's political psychology is dramatically altered. The trauma of Jewish history, most significantly, the Holocaust, haunts Israel's international relations. Fear and trauma in turn fuel aggression, provoking a response that fulfills assumptions—which not only justifies further aggression, but reinforces its arousing appeal.

Practical Zionism in the pre-state Jewish Yishuv (community) in Palestine came to rely on strength and force. This was not only a result of prevailing circumstances but also a polar opposite and compensation for historical fears of destruction and ultimate loss. The reliance was highly functional in that it enabled a process of national independence and actualization to take place. However, the tension between the poles—aggression versus fear of annihilation—became unbearable prior to and following the events of the Six Day War in 1967 because of the intensification of the opposites. Before the war, Israelis felt their very existence threatened, while victory paved the way for an exalted sense of strength and power. As a consequence, aggression eventually came as if to assume a life of its own, since its connection to fear was, generally, denied, having no place in the collective mind.⁸³

This dynamic is at the core of Israel's tendency toward jingoism, and it is an important one for the discussion of economic peace because it very clearly illustrates why prosperity without strings attached will do nothing to allay the underlying tensions on either side.

The idealist's path, embraced by the original Romantic Zionists, is also more difficult to sustain. Military victory has produced immediate, tangible benefits while economic cooperation would require the mending of political and economic relationships that have suffered years of abuse. As Nahum Goldmann, wrote in his autobiography, Israel's 1948 military victory:

seemed to show the advantages of direct action over negotiation and diplomacy...The victory offered such a glorious contrast to the centuries

83 Erel Shalit, "The Relationship between Aggression and Fear of Annihilation in Israel," *Political Psychology* 15, no. 3 (September 1994), 417.

of persecution and humiliation, of adaptation and compromise, that it seemed to indicate the only direction that could possibly be taken from then on.⁸⁴

David Ben-Gurion, perhaps the most influential of Israel's founding fathers, was one of the strongest proponents of solving conflict through military dominance rather than negotiation. In 1948, Yaacov Shimoni, Ben-Gurion's deputy head of the Foreign Ministry's Middle East Department wrote to his superior, Elias Sasson, "[Ben-Gurion] seeks to solve most of the problems by military means, in such a way that no political negotiations and no political action would be of any value."⁸⁵ From 1948 onward, it is clear that, for reasons both historic and contemporary, Israel's politics and economy have been centered on defense and security.

Adding to the complexity of Jewish Israelis' relationship with Palestinians and Arab Israelis, the secular Jewish nationalism on which Israel was founded has since transformed into a religious nationalism. A country of only six million Jews in 2012, Israel has absorbed three million Jewish immigrants since 1948, one million of which immigrated in the 1990s.⁸⁶ One of the most recent additions to Israel are the Haredi, who primarily originate from the ex-Soviet bloc and possess very different religious, political, and cultural outlooks than the secular Marxist Zionists who initially founded Israel. The introduction of the Haredi has influenced the character of Zionist nationalism toward an emphasis on religious right rather than cultural superiority as the Jews's primary claim to the land between the Jordan and Sinai.

From religious fundamentalists to liberal anti-Zionists, Israel is a politically diverse nation. Yet all share a national identity dramatically shaped in by three things: the Hebrew language, Jewishness, and, perhaps most important, the land itself and the conflict it generates.

From its earliest days, the Zionist movement failed to come to grips with the fact that the land of Palestine was already inhabited, and that its

⁸⁴ Avi Shlaim, *The Iron Wall: Israel and the Arab World* (New York: W. W. Norton & Company Inc., 2000), 41.

⁸⁵ Shlaim, *The Iron Wall*, 41.

⁸⁶ Rivlin, *The Israeli Economy*, 1.

population is not Jewish. This has led Zionist leaders to pursue conflicting agendas and focus on short-term planning.⁸⁷

This fundamental flaw in Zionist nationalism continues to dramatically influence all aspects of Israeli society, politics and economics included. Moshe Sharet, Israel's prime minister from 1953–1955 wrote:

In the mind of Ben-Gurion and the officers, Israel has no worries, neither international nor economic. The question of peace does not exist. What happens in the region and in the world is irrelevant. In their view, [the state] should see war as the principal and perhaps only means of increasing welfare and keeping the moral tension...[the retaliatory operations] are the elixir of life...They help us keep the civil and military tension. Without them, we wouldn't have a fighting nation, and without a fighting regime we are lost.⁸⁸

The early Zionists's pursuit of an exclusive ethnic national identity, since evolved into a religious-ethnic claim rather than a civic, pluralist nation-state, has set Israel on a jingoist course of increased division rather toward a search for common ground. Its evolving narrative returns to certain themes:

As a result of Jewish self-consciousness of its own history, when the modern state of Israel came into being in May 1948, a new Jewish self-image wrought by Zionism came into being with it... it mingled ancient, exilic, and modern elements, sometime deliberately, sometimes not. This image has shaped, and has itself been reshaped, by the Israeli experiment ever since.⁸⁹

Nationalism is an underlying factor in commercial trade and economic gain's potential to improve relations between Palestine and Israel. If the focus of Arab–Israeli conflict has emphasized nationalism at the expense of economics, economic peace analysis seems to neglect nationalism. As scholars of nationalism like Walker Connor emphasize, perception is as important as reality.⁹⁰ Stephen Howe writes:

⁸⁷ Hever, *The Political Economy of Israel's Occupation*, 87.

⁸⁸ Jonathan Nitzan and Shimon Bichler, *The Global Political Economy of Israel* (Sterling, VA: Pluto Press, 2002), 102.

⁸⁹ Garfinkle, *Politics and Society in Modern Israel*, 7.

⁹⁰ Connor, "From a Theory of Relative Economic Deprivation," 114.

The index of how much further the process of rethinking the bases of national history still has to go in the Middle East, is that equivalent concepts barely exist there yet. More liberal, inclusive and self-critical kinds of national history are emerging, powerfully and in great variety. But it may still be some time before we see a history beyond nationalism: one that could even in principle form the basis for both Israeli and Palestinian school textbooks, both sides' TV documentaries, both sides' popular self-images.⁹¹

Yet, the very first obstacle to economic peace is not simply a matter of agreeing on history, it is the difficulty of putting disagreement aside. Economic cooperation is appealing because the pursuit of a common goal might induce both parties to put history aside—not forgotten, but no longer primary. Essentially, economic cooperation would weave new threads, one by one, into the fabric of each society.

But where to begin? The structure of Israel's economy is uncondusive to forging trade or labor-based business partnerships with Palestine. In my last chapters, I will examine how power inequality is catastrophic for economic peace. While the idea is good in principle, within current conditions, economic peace as a means to improve Arab–Palestinian–Israeli relations is not a long-term solution, if it provides any relief at all. Like the Oslo Accords, the elite-driven economic peace that is currently being advocated by political leaders and groups will not address the underlying grievances of the Palestinian people nor steer Israeli society away from its current disastrous course toward fundamentalist nationalism.

91 Stephen Howe, "The Politics of Historical 'Revisionism': Comparing Ireland and Israel/Palestine," *Past & Present* (Oxford: Oxford University Press, August 2000), 253.

III. ISRAEL'S SILENT SECTOR: WHY CRIES FOR COOPERATION FROM ISRAEL'S CAPITALISTS ARE BARELY AUDIBLE

Interests (material and Ideal), not ideas, dominate directly the actions of men. Yet the “images of the world” created by these ideas have very often served as switches determining the tracks of which the dynamism of Interests kept actions moving.

—Max Weber⁹²

Gradually there was an increase....to put it cynically...luckily for us, terrorism increased. Why do I say that? Because now we had work and we stopped dealing with the Palestinian State.

—Avaham Shalom, Head of Shin Bet 1980–1986⁹³

Nationalism notwithstanding, the biggest challenge to economic cooperation is embedded within Israel's economic structure itself. The widening gulf between Palestinian and Israeli markets, the large role the government plays in Israel's economic success, the importance of the military to political and economic decision-making, and the high degree of market consolidation and monopolization in Israel's market mean that Israel's market is driven by elites and dependent on elite markets with no interest in Palestinian investment.

The first of these factors is the widening gap between the compositions of the economies. Israel's increasing reliance on high technology and highly educated human capital as a proportion of GNP makes Palestine's large, relatively unskilled labor sector unnecessary for the health and success of Israel's economy. This gap is caused by the disparity in research and education between the two countries and the decreased demand for unskilled labor due, in part, to globalization.

Since gaining independence in 1948, Israel's population has grown from 600,000 Jews and 150,000 Arabs to six million Jews and 1.6 million Arabs. Yet GDP per capita

⁹² Hans Morgenthau, *Politics Among Nations: The Struggle for Peace and Power* (New York: A.A. Knopf, 1978).

⁹³ Moreh, *The Gatekeepers*.

has grown sixfold to \$30,000 per person, far exceeding the rapid population increase.⁹⁴ Often thought of as the paragon of Middle Eastern economies, Israel's export sophistication in the highly skilled service and technology sector gained the country entry in 2010 to the Organization for Economic Cooperation and Development (OECD). Paradoxically, it is this very success that harms cooperative efforts. High salaries and the economic demand for innovation rather than agriculture or manufacturing have made the untrained laborers in Israel and the young, untrained population in Palestine dispensable as a labor market. The disparity between skilled and unskilled labor is growing in Israel, with twofold effects: struggling Israelis are less likely to vote for political concessions that would not directly benefit them, and helping the economy of the territories by employing their unskilled labor is politically more difficult and unattractive than in 1994, when the Paris Protocol was crafted.

As in the United States, England, and much of the developed world, Israel's shift from agriculture and labor-intensive manufacturing to a services-based economy has left many Israelis behind in a widening income gap. Before the 1990s, low-skilled Israeli workers faced competition from Palestinian laborers, a practice that has since been restricted by barriers to border crossing. In the 2000s, Israeli workers had to compete with low-skilled labor imported from the Far East and through illegal immigration.⁹⁵ In 2011, 24.8 percent of the population lived in poverty, one of the highest percentages in the Organization for Economic Cooperation and Development (OECD). Israel's Arab population, at 20 percent of the total, combined with the ultra-orthodox or Haredi, representing 8 percent of the population, are particularly vulnerable. Both Arab Muslims and Haredi tend to have only one wage earner per household. Women typically stay home and care for large families. Haredi men are exempt from military service and prefer to devote their careers to state-subsidized religious study.⁹⁶ Arab men, even when qualified, face severe discrimination in the booming hi-tech sector.⁹⁷ Arab-Israeli

⁹⁴ Rivlin, *The Israeli Economy*, 1.

⁹⁵ Rivlin, *The Israeli Economy*, 15.

⁹⁶ Rivlin, *The Israeli Economy*, 18.

⁹⁷ Rivlin, *The Israeli Economy*, 17.

households also tend to be located away from urban centers like Tel Aviv, and both Haredi and Arab groups tend to live in discrete minority communities.⁹⁸

The problem is cyclical. Rivlin writes:

One of the most worrying factors about this is that the younger generation inherits poverty because of its inadequate ultra-orthodox education system that concentrates on religious studies and does not provide adequate basic education that is the pre-condition for participation in the labor market at anything other than a very low skill level.⁹⁹

The same is true for opportunities among Arab children, who, along with Haredi children, accounted for the bulk of the 35.5 percent child poverty rate in 2011.¹⁰⁰

Non-specialized, assembly-style labor is costly but still necessary to some manufacturing, despite the innovative bent of Israel's economy. Israel's two main industrial exports (excluding services, which do not factor into GDP) are diamonds, at 22.2 percent of export revenue, and chemicals and related products, at 23.1 percent in 2010.¹⁰¹ Approximately one-third of the world's rough diamonds pass through Israel to be cut and polished, and every second diamond sold in the U.S. originated in Israel. However, due to competition with lower-wage labor markets in India and China, Israel's diamond industry has been suffering. Israel Diamond Institute's managing director, Udi Sheintal, teamed up with the government in 2013 to employ Haredi by subsidizing their pay through a \$200-million, five-year program to encourage Haredi integration into the workforce.¹⁰²

Because emerging economies in places like India, China, Brazil, and others have an abundance of cheap labor, Israel's economy currently depends, to various degrees, on government reallocation of wealth from innovative, highly productive sectors to labor-intensive industries, to maintain market competitiveness in global manufacturing. In other words, a large percentage of Israel's economy is protected by government subsidy. This

98 OEDC, *OECD Economic Surveys: Israel*, (December 2011), 49.

99 Rivlin, *The Israeli Economy*, 205.

100 Rivlin, *The Israeli Economy*, 205.

101 OECD., *Economic Surveys*, 49.

102 Reuters, "Wanted: Diamond Polishers in Israel," *ynetnews.com*, (February 23, 2013).

means that developing manufacturing industries is not particularly attractive for Israeli entrepreneurs, because they are not inherently profitable. Thus, these industries cannot be functionally defined as private sector or free market.

While Israel has a vast amount of human capital, or skilled labor, to employ in high-tech industry, the OT currently does not. This means structural differences between the two economies do not provide incentives for Israel to invest in the OT. Prior to the first *intifada*, this dynamic worked slightly different because West Bank and Gazan workers traversed the border into Israel to work at the lowest end of the wage scale. Their earnings constituted about 40 percent of Gaza's gross national product, and one-quarter of the West Bank's. However, rather than supporting the West Bank and Gaza's economy, tying the value of currency in the OT to Israel's much stronger shekel undermined the potential for domestic manufacturing and production development that a weaker currency would allow. Restricted access to land and water rights in the territories also limited the potential for economic growth. Palestinian wages, paid in shekels, were used to buy Israeli goods, which afforded Israel both the benefit of cheap labor and a market for goods. Before the *intifada*, Israeli exports to the territories totaled \$500 million per year.¹⁰³ After Oslo, Palestinian migration to and from Israel became more restricted, but Israeli-owned labor-intensive manufacturing, like textiles, did not relocate to the territories—and it is easy to see why. The Paris Protocol ensured Palestine would fall under the same tax and import regime as Israel, while Oslo II granted Palestine less than one-fifth of their claim to water. These changes served to widen the gap between Israel and the territories and make foreign investment less attractive, particularly for businessman already integrated into the more powerful Israeli economy.

The rule is the Palestinians must impose the same tariffs on imports as the Israelis. These tariffs have evolved to protect and promote the Israeli economy and so are not consistent with the interests of a fledgling economy with limited productive capacity. The Palestinians got a promise for smoother access to the Israeli market. But for now, quotas are imposed

103 Atif Kabursi "Economic Exchange Under Asymmetrical Options: The Challenge of Peace with Israel." in *Impact of the Peace Process on Selected Sectors* Beirut: Economic and Social Commission for Western Asia, Economic Research Forum (1999), 125.

on Palestinian poultry, eggs, potatoes, cucumbers, tomatoes, and melons entering the Israeli market.¹⁰⁴

Because the gap in demand for unskilled vs. skilled workers is widening, even if the state were to step in for private industry and pursue a plan to reintegrate Palestinian labor into the Israeli economy or Israeli business into the OT economy, the standard of living for laymen Palestinian employees would at best reflect the disparity evident between the Haredi vs. the engineer in Israel. The first *intifada* doubtlessly had roots in the Palestinian experience of economic inequality while working in Israel.

A March 2013 report by the World Bank concluded that the best means of regional integration for a future Palestine is to build an innovative economy like Israel's. "A skilled labor force is one of the key factors that any potential foreign investor would consider in deciding whether to invest in the Palestinian Territories even after a political solution has been realized."¹⁰⁵ Researchers like Tremaine Tucker, writing in *The ICT Sector in Palestine: Current State and Potentials*, have tried to advocate and develop a plan to move the OT to an innovative economy. As of 2011, 46.5 percent of Gazans and 53.2 percent of West Bankers had a PC at home.¹⁰⁶ Under direction from the U.S. State Department, Cisco, Google, HP and Intel have collaborated with private Palestinian firms to bolster ICT sector growth; however, according to Tucker, Palestinian firms do not benefit from government support as Israeli firms do.

Fragmented, disconnected and often inert, many Palestinian firms struggle to establish themselves in the local context, let alone in a regional or international one. Without vested financial and institutional interest of the government, as seen in cases in most other emerging economies (see Singapore, Jordan, Estonia etc.) the ICT sector is left leaderless at a time at which it most needs direction and propulsion.¹⁰⁷

104 Kabursi, "Economic Exchange Under Asymmetrical Options," 26.

105 Noah Browning, "Israeli Curbs Harm Palestinian Economy Long Term – World Bank," *Reuters.co.uk*, March 12, 2013. Accessed 03/13/2013.

106 Tremaine Tucker, *The ICT Sector In Palestine: Current State and Potentials* (Jerusalem and Ramalla: Palestine Economic Policy Research Institute, 2012), 5.

107 Tucker, *The ICT Sector in Palestine* 13.

Neither the IPI nor the API directly addresses the issue of how Palestine is to improve its economy, whether fully autonomous from Israel or not. Apart from foreign funding, Palestine's primary source of income is trade with Israel, a condition that, although imposed by Israel, nevertheless indicates certain geographic constraints on specific industries. Agriculture, for example, particularly in Gaza, requires some border cooperation with Israel. Even if the Arab states and Israel came to an agreement that benefitted each party—even one that led to the political recognition of Palestine as a state—without any direct representation, Palestine would likely be left out in the cold economically.. Oslo demonstrated this point. In the mid-90s, Israel decreased dependence on Palestinian labor within its state borders. Twenty years on, the Palestinian economy is in shambles and the two peoples, on a personal level, have become more estranged.¹⁰⁸

A. MILITARY/DEFENSE R&D COMPLEX

In a country with limited size, space, and few natural resources, defense R&D has been instrumental in Israel's economic globalization. By developing technology and skilled labor via the sponsorship of defense-focused education and training, Israel has been able to compete internationally by adding a high degree of value above raw materials to exports. In economic terms, the pursuit of security has not merely been the means of Israel's survival; it has driven Israel to thrive.

The cornerstones of Israel's modern innovation-driven economy are the 1985 Law for the Encouragement of Industrial Research and Development and the 1948 IDF foundation of the Science Corps. The aim of this law was to foster the country's already vast technological and scientific resource-base by sponsoring science and technology research that would benefit export industry, simultaneously developing a highly skilled labor force.¹⁰⁹ Facilitated, in part, by close albeit informal ties between the political and scientific elite, defense policy has included investment in academic and military research, as well as public education. Nuclear research plants, established in the 1960s, have enriched Israel's university system for decades. Israel's institutions of higher education

¹⁰⁸ Neve Gordon, *Israel's Occupation* (Berkeley: University of California Press, 2008), 2.

¹⁰⁹ Rivlin, *The Israeli Economy*, 201.

(Technion-Israel Institute of Technology in Haifa, Weizmann Institute of Science in Rehovot, Hebrew University in Jerusalem, along with the universities of Haifa, Beer Sheba, Tel Aviv, and Ramat Gan) have established the world's highest per capita ratio of engineers: 135 to every 10,000 citizens.¹¹⁰ In terms of percentage of GDP, Israel also had the highest national expenditure on R&D any country in the OECD, making Israel a world leader in high technology.¹¹¹ Figure 1 illustrates national expenditure on research and development, 2010.

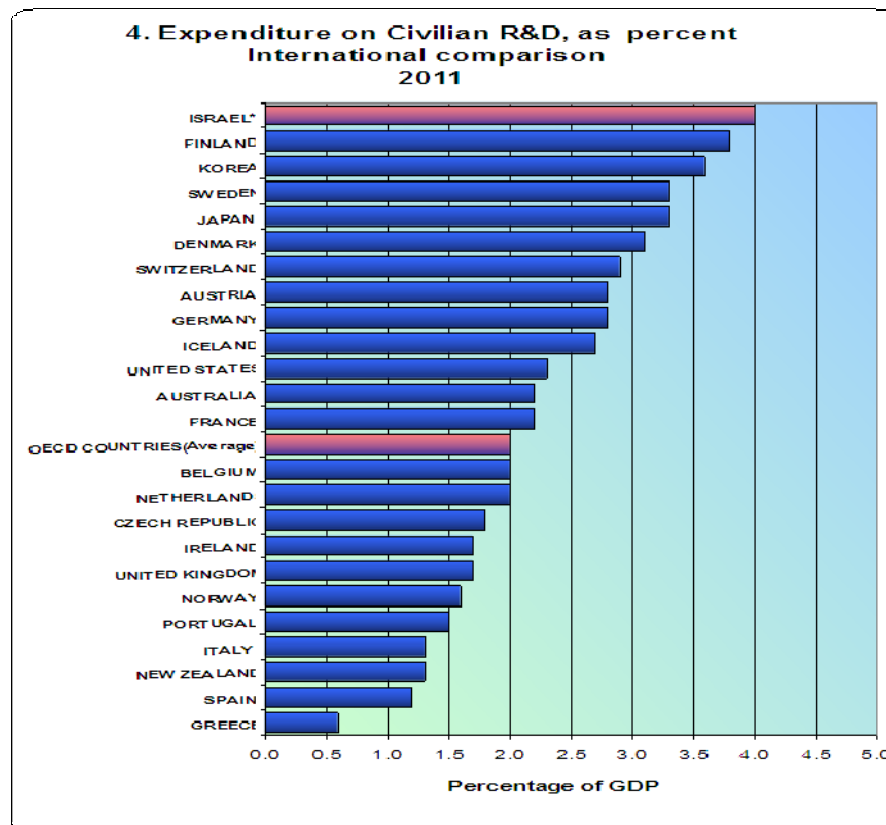


Figure 1. National expenditure on civilian R&D, as a percentage of GDP among OECD countries, is highest in Israel, 2011.¹¹²

¹¹⁰ Nisso Cohen, "The Israel High-Tech Industry – Fifty Years of Excellence" *Israel Ministry of Foreign Affairs*, 10/20/2002. <http://www.mfa.gov.il>

¹¹¹ Central Bureau of Statistics, Israel, "National Expenditure on Civilian Research and Development: 2012," <http://www1.cbs.gov.il>.

¹¹² State of Israel Press Release, Jerusalem, July 23, 2013. www1.cbs.gov.il/www/hodaot2013n/12_13_199e.pdf.

Israel's economy has not only benefitted from a workforce educated in increasingly advancing scientific and technical fields, but also from new technologies initially intended for military purposes and accessible to private companies. Israel's first computer was assembled and used at the Weizmann Institute, a public institution, in the early fifties.¹¹³ Telecommunication also began in the government, as the state-owned company Bezeq in 1984, which rapidly moved to satellite and fiber-optic technology, amplifying Israel's high-tech capability. Israel's first high-tech exports through private firms were in defense industries that employed advanced technologies initially developed by the IDF, including the Israel Aircraft Industries, Rafael, and other defense contractors.

Although the Arab–Israeli conflict has stunted Israel's economy in many ways, in other respects the conflict is integral to Israel's economic success. By a large margin, Israel dominates arms exports in the MENA region, although Israel is only third in proportionate GDP defense spending, after Oman at 10.7 percent and Saudi Arabia at 9.3 percent.¹¹⁴ At 19 percent regionally, or sixth place worldwide, Israel is also the second-largest regional recipient of conventional weapons (after the UAE, whose consumption was 29.6 percent regionally) and third place worldwide between 1999 and 2003.¹¹⁵ Although the United States took the lion's share of the MENA arms market, Israel claimed 1.6 percent, a huge global percentage for such a small country. Between 2004 and 2008, Israel was the eleventh-largest arms exporter worldwide, a 23-percent volume increase from 1999–2008, with primary clients in India (24 percent), Turkey (19 percent), the U.S. (9 percent), and Mexico (9 percent). Although Israel is reliant on the United States for some weapons systems, Israel is the world leader in some defense technologies like the unmanned aerial vehicle (UAV).¹¹⁶ Full transparency on weapons exports, however, is nonexistent; SIPRI reported in 2009 that “no state in the Middle East

113 Nisso Cohen, “The Israel High-Tech Industry – Fifty Years of Excellence.” The Jewish Virtual Library, Accessed 05/04/2013. <https://www.jewishvirtuallibrary.org/jsource/Economy/idc.html>.

114 Sam Perlo-Freeman, “Arms Transfers to the Middle East,” SIPRI Background Paper (July 2009), 7.

115 Perlo-Freeman, “Arms Transfers to the Middle East,” 2.

116 Perlo-Freeman, “Arms Transfers to the Middle East,” 4.

publishes an annual report on its exports of conventional weapons.”¹¹⁷ However, it is Israel’s relationship with the United States, the world’s biggest producer, rather than Israel’s individual weapons manufacturing, that is the most significant element in Israel’s economy. The top 100 arms producing companies in the world (excluding China) in 2004 and 2005 are shown in Figure 2.

Table 9.1. Regional and national shares of arms sales for the SIPRI Top 100 arms-producing companies in the world excluding China,^a 2005 compared to 2004
Arms sales figures are in US\$ b., at current prices and exchange rates. Figures do not always add up to totals because of the conventions of rounding.

Number of companies	Region/ country	Arms sales ^b (\$ b.)		Change in arms sales, 2004–05 (%)		Share of total Top 100 arms sales, 2005 (%)
		2004 ^c	2005	Nominal ^d	Real ^e	
41	North America	167.3	183.0	9	6	63.1
40	USA	166.8	182.5	9	6	62.9
1	Canada	0.5	0.4	–4	–13	0.2
32	Western Europe	78.4	85.3	9	7	29.4
10	UK	31.7	34.2	8	6	11.8
6	France	18.8	19.9	6	4	6.9
1	Trans-European ^f	9.5	9.6	1	–1	3.3
3	Italy	8.3	10.9	33	30	3.8
7	Germany	5.6	6.0	8	6	2.1
1	Sweden	1.9	2.1	9	11	0.7
2	Spain	1.7	1.6	–4	–7	0.6
1	Switzerland	0.6	0.6	–6	–7	0.2
1	Norway	0.4	0.4	–8	–13	0.1
9	Eastern Europe	4.6	5.4	18	3	1.9
9	Russia ^g	4.6	5.4	18	3	1.9
9	Other OECD	7.8	8.3	6	5	2.9
6	Japan ^h	6.1	6.2	2	4	2.1
2	Korea, South ⁱ	1.3	1.6	25	9	0.6
1	Australia	0.4	0.5	14	7	0.2
9	Other non-OECD	7.4	8.0	9	4	2.8
4	Israel	3.5	3.7	7	6	1.3
3	India	2.7	3.0	10	3	1.0
1	Singapore	0.9	0.9	9	7	0.3
1	Brazil	0.4	0.4	8	–16	0.1
100	Total	265.5	290.1	9	6	100.0

Figure 2. Stockholm International Peace Research Institute (SIPRI), top 100 arms-producing companies (excluding China) 2005, 2006. Israel’s four companies took 1.3 percent of the arms market.¹¹⁸

¹¹⁷ Perlo-Freeman, “Arms Transfers to the Middle East,” 7.

¹¹⁸ Elisabeth Sköns and Eamon Surry, *SIPRI Yearbook 2007: Armaments, Disarmament and International Security*, (Oxford: Oxford University Press, 2007), 348.

The proportion of GDP expenditure on defense products in Israel is also high in global terms, although not the biggest regionally. In 1950, Israel spent 8.5 percent of GDP on defense; in 1975, spending increased to 30 percent. It was a mere 6.3 percent in 2010 and rose to 14.3 percent in 2011. The high level of arms imports, by both Israel and Egypt, is partly subsidized by U.S. aid.¹¹⁹ Israeli defense spending can either be seen as a hindrance or an asset to her economy. Rivlin writes, “If defense is viewed as an expenditure that results from the pressures of the military-industrial complex or because of mistaken political policies, then it may be regarded as a burden.”¹²⁰ By contrast, when defense is critical to the viability of civilian institutions, it becomes worth any expense. The true value, Rivlin argues, lies between these two extremes. However, an accurate description of whether defense spending pays off requires a more complex analysis than charting a dot between two variables. Subsidization from abroad and the fostering of market relationships that might facilitate Israeli arms sales are also factors worth considering in a spending cost-benefit analysis—whether referring to Israel’s spending on imports, exports, or investments in research.

The Lavi fighter project of the mid-1980s illustrates the symbiotic intersection between defense spending, Israel’s economy, and international politics. Interested in the Lavi fighter, the United States gave Israel funding in U.S. currency. These dollars were sold by the Israeli government to domestic companies in exchange for work on the Lavi, further reducing the cost of production. However, in 1987, U.S. political and financial pressure cancelled the project. Despite a short-term financial loss in projected military export revenues, the project produced long-term benefits to Israel’s economy in the form of human capital investment. Hundreds of engineers, enriched with experience and training from the Lavi project, returned to the job market and formed “one of the backbones of the civilian high-technology sector.”¹²¹ Rivlin writes, “On the beneficial

¹¹⁹ Perlo-Freeman, “Arms Transfers to the Middle East,” 3.

¹²⁰ Rivlin, *The Israeli Economy*, 193.

¹²¹ Rivlin, *The Israeli Economy*, 193.

side, the military has trained thousands of young people in high technology and has stimulated production in that sector.”¹²²

While defense was initially conducted in the public sector, since the 1960s, R&D has shifted toward private institutions. Nineteen seventy-six saw the establishment of the Industrial Research and Development (BIRD) foundation, a bi-national partnership with the United States with a \$110 million endowment for the purpose of encouraging cooperation between Israeli and U.S. private product development. By 2011, BIRD had approved 845 projects and supplied \$295 million in grants and investments yielding sales of \$4.5 billion.¹²³ Israel and the United States’ common interest in defense R&D has strategically strengthened political and financial ties between the countries, and Israel’s access to the largest and most sophisticated economy in the world, including the elite U.S. defense-technology market, has paid enormous dividends.

Defense spending is the backbone of Israel’s GDP growth and successful globalization. Not only has defense spending shaped Israel’s innovative economy through R&D technology and human-capital development, it has forged international economic alliances with strong countries like the United States to meet high international demand for weapons and other defense-inspired high technologies.

Not merely a commodity, military spending and production accrues additional revenues outside of the free market in the form of foreign aid, and because conflict rent-seeking generates surplus revenue, it does not tax existing production capabilities. This dynamic is bad news for economic peace. Raul Caruso draws a distinction with regard to surplus revenue, or revenue not tied to market competition for resource allocation, in his elaboration of Walter Isard’s 1994 factorial definition of peace economics.¹²⁴ Caruso argues that, in reality, conflict and market structure are not independent. Rather, conflict is integrated into a market in varying degrees according to the allocation of non-

¹²² Rivlin, *The Israeli Economy*, 194.

¹²³ Rivlin, *The Israeli Economy*, 199.

¹²⁴ Raul Caruso, “On the Nature of Peace Economics,” *Peace Economics, Peace Science, and Public Policy* 16, no. 2 (2010): 3.

productive resources.¹²⁵ In other words, some economies have more potential to be dominated by political elites than others, according to how they are constituted.

Economics, by definition, implies a limited number of resources, classically juxtaposed as guns vs. butter. If a country invests resources (which include labor, materials, land, etc.) in making guns, there will be fewer resources to make butter, and vice versa. However, Caruso argues that there is not simply a dichotomy in the allocation of resources between production and allocation, or guns vs. butter, but there is a third category of productive activity which is invulnerable to appropriation by other industries, which Caruso terms “ice cream.”¹²⁶ Examples of ice-cream production include resource rents (from gold, copper, diamonds, etc.) which fuel violent conflict in Africa. Thinking specifically of sub-Saharan Africa, Caruso argues that because the ice-cream market is impervious to conflict, it is imperative that ice cream be an uncontested resource, meaning it be managed by distinct and secure private-property laws.¹²⁷ Caruso’s policy advice for the reduction of conflict is to reduce unproductive military spending, reduce economic reliance on contested sectors in which property rights are not clearly defined, and increase economic reliance on production sectors in which property rights are clear.¹²⁸

In Caruso’s terms, Israel’s defense spending might be thought of as ice cream, a source of rent money via the United States that operates outside the free market and acts as a major resource in Israel’s political economy. Nitzan and Bichler, in *The Global Political Economy of Israel*, and Mintz and Ward, in “The Political Economy of Military Spending in Israel,” argue through empirical data modeling that “in Israel the military budget at the margins is also employed as a political–economic instrument to help manage the economy and provide a favorable election climate for incumbants.”¹²⁹ The

125 Caruso, “On the Nature of Peace Economics,” 1.

126 Caruso, “On the Nature of Peace Economics,” 8.

127 Caruso, “On the Nature of Peace Economics,” 8.

128 Caruso “On the Nature of Peace Economics,” 9.

129 Alex Mintz and Michael Ward, “The Political Economy of Military Spending In Israel,” *The American Political Science Review* (1989), 521.

contested resources fueling the conflict are, of course, land, water, and natural-resource property rights. Like blood diamonds, albeit on a more sophisticated scale, these contested resources support state political actors by domestically increasing popular and corporate reliance on the state as the arbiter of security and internationally generating foreign-aid assistance. Likewise, as Daniel Doran points out, “Arab dictatorships exploited the Israeli–Palestinian dispute to legitimize their severe curtailment of civil liberties and justify their massive military budgets, which devoured resources that could have been better used to promote economic growth.”¹³⁰

B. WHAT FREE MARKET?

“We passed power from the politicians to the market, the ultimate stick, the judge of bad behavior.”

—Jacob Frenkel, Governor of the Bank of Israel,
1991–2000¹³¹

Raul Caruso’s insistence on the need for private property rights and an independent private sector to create economic peace is reinforced by the economist Shir Hever’s examination of the curious fact that Israel’s occupation of Palestine is currently a burden on the state rather than a financial asset. He writes, “The occupation can be considered as a phenomenon that has a very strong economic element to it, and yet profit alone cannot explain the actions of the many actors perpetuating or resisting the occupation.”¹³² While Israel has not directly profited from the occupation, several Israeli economists have pointed out that Israel’s private sector is heavily dependent on political ties and therefore beholden to ideology before profit. The absence of a strong, independent business community driven by profit explains why free-market capitalism does not characterize Israel’s interest in Palestine.

¹³⁰ Daniel Doran, “Mideast Peace Can Start with Economic Growth, *The Wall Street Journal*, March 12 (2009): 16.

¹³¹ Quoted in Haaretz, 2002, cited in Nitzan and Bichler, *The Global Political Economy of Israel*.

¹³² Hever, *The Political Economy of Israel’s Occupation*, 1.

Of the 650 companies traded on the Tel Aviv Stock Exchange between 1995 and 2006, 160 companies constituted close to half of the total stock-market capitalization and were controlled by 20 major business groups. On average, the largest ten of these business groups controlled 30 percent of all market capitalization, one of the largest market shares in the Western world.¹³³ Of the 652 companies listed on the Tel Aviv stock exchange, in 1999 specifically, 82 of the most powerful, constituting 41 percent of market capitalization, were controlled by five private groups.¹³⁴ Although these groups were diversified across different industries, they were particularly dominant in the financial sector, claiming affiliation with half of all banks and insurance companies.¹³⁵ The largest in terms of consolidation, the Israel Discount Bankholdings (IDB), is controlled by the Rencanti and Carasso family along with Goldman Sachs and William Davidson. In 1999, IDB was valued at 22 per cent of the entire Tel Aviv stock market, nearly \$11 billion with holdings in majority and minority stakes in “hundreds of companies spanning the entire business spectrum, from banking, through finance, to high technology, industry, real estate, retail, services and transportation.”¹³⁶ The second-largest group, at 7.4 per cent and \$3.5 billion in banking, finance, raw materials, high technology, real estate, and transportation holdings, was the family-owned Ofer group, owned by the Ofer brothers. The third-largest group, Koor, primarily owned by Goldman Sachs, Arison, and the Nechama/Dankner and Bronfman/Kolber families, with a minority stake controlled by the Offers, was valued at close to 6 percent of the market, at \$2.8 billion with assets primarily in high technology, raw materials, and real estate. At fourth was the Dankner family’s Dankner Group, valued at 2.6 per cent of the market, \$1.2 billion in partial control of Bank Hapoalim, Koor, Clal (later a subsidiary of the IDB empire) high technology, chemicals, energy, and real estate. Ranking fifth in shareholdings, at 2.3 percent of the market and \$1.1 billion, was Arison Holdings, owned by the Arison and Nechama families, whose primary asset was Bank Hapoalim, a major

¹³³ Rivlin, *The Israeli Economy*, 19.

¹³⁴ Nitzan and Bichler, *The Global Political Economy of Israel*, 87.

¹³⁵ Rivlin *The Israeli Economy*, 19.

¹³⁶ Nitzan and Bichler, *The Global Political Economy of Israel*, 85.

stakeholder in Koor and IDB, as well as a variety of real estate and construction firms.¹³⁷ The pervasiveness of cross-holdings and pyramid-style holding concentrations of minority and majority shares is clearly evident in these top five groups.

The Israeli government plays a pivotal role in this high concentration. With holdings in an array of market sectors, from banking, telecommunication, military production, and energy to infrastructure and transportation, the government's stake in the publicly traded market was valued at 14.8 percent (\$7.2 billion), or the second-largest market shareholder after IDB. Unlike the top five, however, the government acts as a night watchman, feeding publically funded assets into private industry.¹³⁸

The remaining 560 companies listed, accounting for 45 percent of overall market capitalization in 1999, minus the 92 that include the top five groups and the government together, do not fare much better in terms of concentration.¹³⁹ The next top five account for another 7 percent of market share. Overall, 34 ownership groups controlled 77 percent of the market, with the much of the remaining share held by large international firms, as seen in Figure 3.

137 Nitzan and Bichler, *The Global Political Economy of Israel*, 85.

138 Nitzan and Bichler, *The Global Political Economy of Israel*, 87.

139 Nitzan and Bichler, *The Global Political Economy of Israel*, 87.

Table 3.1 Israel's Dominant Capital, circa 1999

Group (controlling family/ interest)	MCAP* \$ billion (1999)	Principal Holdings (majority and minority control)
Israel Discount Bankholdings (IDB) Recanati family Carasso family Goldman Sachs William Davidson	10.8	<i>Banking:</i> Discount Bank, Discount Mortgage Bank, Industrial Development Bank, Mercantile Discount Bank <i>Finance:</i> Ilanot-Batucha, Albar-Mimunit, Visa, Y.L.R. <i>Capital Markets</i> <i>High technology:</i> Barak, Celcom, ECI Telecom, Elbit, Elron, Gilat, Liraz, Nice, R.D.C. Rafael Development, Scitex, Telad, Tevel, United Pan European Communications <i>Industry:</i> American Israel Paper Mills, Gadot Chemical, Granit Hacarmel, Kitan, Klil, Nesher, Ormat, Polgat, Sonol, Tambour <i>Provident funds:</i> Tamar <i>Real estate:</i> Azorim, Property and Building Corp <i>Retail, services & transportation:</i> Clal Insurance, Clal Tours, El-Yam Ships, Supersol, Overseas Shipholding Group, Zannex Securities
Ofer Ofer family	3.5	<i>Banking:</i> Bank Adanim, Bank Tefahot, United Mizrahi Bank <i>Finance:</i> Melisron, Almog Beach <i>High technology:</i> Tower Semiconductors <i>Industry:</i> Dead Sea Bromine, Dead Sea Periclase, Dead Sea Works, ICL-Israel Chemical, Koor Industries, Ofer Development, Oil Refineries, Omni, Priclass <i>Provident funds:</i> H.L. Finance <i>Real estate:</i> Elram, Ofer Development <i>Retail, services & transportation:</i> Judea Hotels, Ofer Trading, Royal Caribbean, Tanker Pacific Shipmanagement, Zim Lines, Zodiac <i>Cross-holdings:</i> Koor
Koor Bronfman family Kolber family Bank Hapoalim	2.8	<i>High technology:</i> ECI Telecom, Tadiran, Telrad Machteshim-Agan, Mash'av, Middle East Tubes, United Steel Mills <i>Real estate:</i> Koor Properties <i>Retail, services & transportation:</i> Knafaim, Sheraton Moriah
Dankner Group Dankner family	1.2	<i>Banking:</i> Bank Hapoalim <i>High technology:</i> Matav <i>Industry:</i> Carmel Chemicals, Dor Chemicals, Dor Energy, Israel Salt Industries <i>Real estate:</i> Dankner Investment <i>Cross-holdings:</i> Koor, Clal (IDB)
Arison Holdings Arison family Nechama family	1.1	<i>Banking:</i> Bank Hapoalim <i>High technology:</i> Biomedical, El-Ar, Eurocom, Euronet Gold, Hamlet, Medsim, Mirabilis, Partner, Polaris, Steps, V-CON <i>Real estate:</i> Herouth, Housing and Construction Holdings (Shikun Ubinui), Lime and Stone, Orbond, Or-Yam, Secom, Shikun Ovdin, Solel Boneh <i>Cross-holdings:</i> Clal (IDB), Koor
Israeli Government	7.2	<i>Banking:</i> Bank Hapoalim, Bank Igud, Bank Leumi, Discount Bank, Industrial Development Bank <i>High technology:</i> Bezeq, Israeli Aircraft Industry <i>Industry:</i> Ashot, RAFAEL, Israeli Military Industries, Oil Refineries <i>Retail, services & transportation:</i> Coal Supply Company, El-Al, Israel Electric Corporation, Mekorot, Shekem

* Market capitalisation comprises only domestic holdings, and includes the total value of majority holdings (including what is held by minority owners and the public) and the pro-rated value of minority holdings.

SOURCE: Authors' archive; Dun & Bradstreet Israel, *Israel's Largest Enterprises 1999*; *Standard & Poor's Israel's Leading Public Companies* (<http://www.standardpoor.co.il/bankhapoalim/>); the U.S. Securities and Exchange Commission (<http://www.sec.gov/>); Moody's (Online); and Abramov and Zuk (1999).

Figure 3. Capital Consolidation by proportion of holdings on the Tel Aviv Stock Exchange, 1999.¹⁴⁰

¹⁴⁰ Nitzan, Jonathan, and Shimshon Bichler. *The Global Political Economy of Israel*. Sterling, VA: Pluto Press, 2002.

In 2006, a government-appointed committee created measures such as the establishment of a specialized economic court to provide legal avenues for minority shareholders, changes in audit procedures, caps on bank credit to single borrowers, and changes to board voting procedure to strengthen the powers of minority shareholders and independent directors.¹⁴¹ But concentration remains high. By 2011, 24 business groups still controlled 136 out of 569 listed companies and 23 percent of companies, not counting the independent pharmaceutical giant Teva (mainly owned by U.S. investors), held 68 percent of market capitalization.¹⁴²

Capital concentration distorts the market allocation of resources.¹⁴³ Monopolies, evident in industries as diverse as bus transportation, cement manufacturing, and cottage-cheese production, adversely affect building and living costs and job access, particularly for low-wage labor, throughout the country. Due to their large proportion of market holdings, highly concentrated company groups pose a security risk to the overall economy, which means they have political weight to throw around.¹⁴⁴

The oligopolistic structure of the defense industry in Israel is reflected in the fact that six major companies dominate the market. The dependence of the government on these major concerns for economic growth, revenues, jobs, and exports, has made the government sensitive to the economic well-being of these companies.¹⁴⁵

These companies can pressure government to maintain regulations that inhibit free-market competition, like high taxes and other restrictions on imports and exemption from antitrust laws.

With slim to no market leverage, small-business interests without ties to vast capital holdings do not have great sway over government economic policy. But even the most powerful monopolist families do not have the most clout in Israeli politics. No

141 Nitzan and Bichler, *The Global Political Economy of Israel*, 87.

142 Rivlin, *The Israeli Economy*, 90.

143 OECD, *OCEC Economic Survey 2012*, 89.

144 Rivlin, *The Israeli Economy*, 90.

145 Shimshon Bichler and Jonathan Nitzan, *The Global Political Economy of Israel*, Reference to "The Political Economy of Defense." Master's thesis. Hebrew University (1986).

group is as influential over economic policy as the IDF (Israeli Defense Forces). The IDF's influence is two-pronged: the military is politically important because it dovetails with state nationalism, and the military controls a vast amount of capital, from cultural capital to land. Both the revisionist Charles Freilich, in his 2012 book *Zion's Dilemmas: How Israel Makes National Security Policy*, and the more critical Patrick Tyler in his book, *Fortress Israel: The Inside Story of the Military Elite Who Ran the Country—and Why They Can't Make Peace* (also 2012), agree on one important point: the IDF runs Israeli politics.¹⁴⁶ Tyler writes:

... the army and the intelligence services dominate the national budget, define external and internal threats, initiate policies, review their own performance, run a large portion of the economy, control vast tracts of land and airspace, and exert immense influence over communications and news media through censorship.¹⁴⁷

The vast majority of elected officials come from the upper ranks of the military:

Aside from the lateral entrance afforded by family connections, the political class is a circumscribed group—though not so much today as it used to be. There is still virtually no way into a party list through business, academia, the media, the Foreign Service, or municipal government... Most easily of all, a retired military man can slide sideways into politics at the upper level, and virtually no other kind of professional can.¹⁴⁸

Rabin, Ezer Weizmann, Moshe Dayan, Yigal Allon, Ariel Sharon, Rafael Eytan, Avigdor Kahalani, and Ehud Barak were all generals. Politicians are not only seen as nonsense by the Israeli public, they are often seen as less partisan because during their military careers they were required to be.¹⁴⁹

Military prestige both fuels and benefits from Israel's most important economic actor: its parent organization, the state government. Israel's early socialist history was marked by a high degree of intervention in the economy, and the state still possesses a vast array of capital resources, including foreign aid. Not only does the state set policy, it

¹⁴⁶ Aluf Benn, "Israel's Warlords: How the Military Rules in War and Peace," *Foreign Affairs*, April/March (2013), 3.

¹⁴⁷ Benn, "Israel's Warlords," 2.

¹⁴⁸ Garfinkle, *Politics and Society in Modern Israel*, 113.

¹⁴⁹ Garfinkle, *Politics and Society in Modern Israel*, 112.

owns or controls 90 percent of the land, including sea ports, and dictates the structure of and access to port trade and industrial land development.¹⁵⁰ Vast property holdings, which limit private capital by restricting a tenant's ability to mortgage a property, are just one aspect of the state's pervasiveness within the Israeli economy. Daniel Maman notes that the Israeli state has a greater degree of direct management in Israel's economy than the typical Western democracy. He writes, "The burden of maintaining a democratic society in the face of continuous military conflict and periodic waves of immigration has led to an unusual concentration of power in the state."¹⁵¹ While corporations are driven by financial incentives, governments are driven by political incentives, which may include, but are not limited to, financial gains. Maman concludes, "This dominance of state organizations means that political considerations are extensively involved in economic activity."¹⁵² While the state draws political power from the highly esteemed military, the military uses state power to solidify its position. The surest way to consolidate both the power of the military and the power of the state is to highlight external threat.

Since 1948, Israel had been essentially building a war economy. Government subsidy and protectionism for large industry, combined with huge government military spending and accompanying inflation-indexed bonds available for corporate investment, tightened the link between state and private interests. Since the 60s, both the IDB (Israeli Discount Bank) and Koor have looked to military top brass to fill executive positions. This connection afforded IDB and Koor special advantages, including the acquisition of defense contracts, tax-exempt foreign partners, privileged holdings in the military sector, and other perks.¹⁵³

The advantages of a war economy did not end when Israel moved away from outwardly evident heavy state intervention. The Likud party's economic platform, from

¹⁵⁰ Rivlin, *The Israeli Economy*, 20.

¹⁵¹ Daniel Maman, "The Power Lies in the Structure: Economic Policy Forum Networks in Israel," *The British Journal of Sociology* (The London School of Economics and Political Science) 48, no 2 (June 1997): 271.

¹⁵² Maman, "The Power Lies in the Structure," 271.

¹⁵³ Bichler and Nitzan, *The Global Political Economy of Israel*, 130.

the 1980s until today, has been to espouse free-market rhetoric and the virtue of small government while increasing government debt through military-industrial spending. “In their imagination, they were merely removing the shackles of government from an otherwise competitive economy. What they did in practice, however, was deregulate an oligopolistic war economy, effectively inviting dominant capital to take the lead.”¹⁵⁴ Unsurprising, the economic lead taken by conglomerates with not only a corporate culture but a financial basis firmly derived from defense has offered little incentive to sow seeds of cooperation when, financially and politically, economic cooperation reaps comparably meager rewards in undeveloped Palestine.

C. ECONOMIC POWER DISPARITIES: THE PROBLEM WITH ELITE-INITIATED PEACE

The extent of private capital is not only critical for the success of economic peace in terms of its proportional relationship to state power, but also in terms of the structure of the economic ties that are formed. High market consolidation means the primary actors, and consequently, the primary beneficiaries of market integration, are a select few. Elite rewards benefit the elite. Yet the majority needs to gain vested interest if economic peace is to be successful.

Galia Press-Barnathan seeks to address the discrepancy in the literature between strong findings for a correlation between economic interdependence and peaceful relations, and the failure to explain it.¹⁵⁵ Press-Barnathan’s argument attempts to incorporate the perspective of the two main opposing camps in the economic peace theory debate: the liberals, who see the correlation as causal, and the realists, who are skeptical that trade can have an impact on high-politics issues and contend that trade gains benefit only a small minority.¹⁵⁶ When the literature does attempt to explain the correlation, the focus tends to be on why interdependence prevents conflict, not whether

¹⁵⁴ Bichler and Nitzan, , *The Global Political Economy of Israel*, 135.

¹⁵⁵ Galia Press-Barnathan, “The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace,” *Journal of Peace Research* 43, no. 3 (May 2006).

¹⁵⁶ Press-Barnathan, “The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace,” 262.

it can create peace—a subtle but important distinction. To determine whether peace-building can occur via economic incentive, Press-Barnathan outlines two stages in the peace process: Benjamin Miller’s “cold peace,” or the peace treaty itself (Stage I), and “normal peace,” when main issues are resolved and transnational ties begin to develop (Stage II).¹⁵⁷ Stage I is likely to be state centered and comprised of the most powerful domestic economic actors with ties to the government. However, these same well-connected business leaders are insufficient ushers of Stage II change. Instead, it is the broader public—smaller producers and consumers—who will determine whether normalization occurs.¹⁵⁸ Liberal theory often assumes trade interactions are symmetrical or that economic power disparity is not a factor; yet Press-Barnathan sees disparity in relatively coercive political power and size-determined economic influence as detrimental to mutual cooperation. In other words, as political and economic inequality increases, the likelihood of peace, long-term, decreases. Moreover, she sees a problem with defining the meaning of “mutual cooperation,” a definition subject to the above inequalities.¹⁵⁹ Last, Press-Barnathan argues that while third parties can create incentives for a cold peace, they cannot directly affect normalization, although they can help by continuously rewarding cooperative activity.¹⁶⁰ Figure 4 outlines the trouble with maintaining a long-term economic peace agreement once achieved by three different means.

157 Benjamin Miller “Contrasting Explanations for Peace: Realism vs. Liberalism in Europe and the Middle East.” *Contemporary Security Policy*, volume 31, no. 1 (April 2010), pp. 134–164.

158 Press-Barnathan, “The Neglected Dimension of Commercial Liberalism,” 264.

159 Press-Barnathan, “The Neglected Dimension of Commercial Liberalism,” 265.

160 Press-Barnathan, “The Neglected Dimension of Commercial Liberalism,” 267.

Table I. Summary of the Hypotheses

<i>Relevant factor</i>	<i>Impact on Stage I: peace treaty</i>	<i>Impact on Stage II: normalization</i>
Domestic winners and losers	Coalition of state actors and powerful business groups is necessary and sufficient.	Expansion of vested interest in peace to broader segments of society (smaller producers, consumers) is necessary. Narrow state–big business coalition may cause societal resentment.
Economic power disparities	May cause concern for weaker side, but also can serve as an initial incentive to sign a treaty. Can be mitigated through uneven bargains, cooperation in issue areas where disparity is less stark, and third-party compensation.	Main dangers associated with asymmetric trade become relevant in the long run; actual expansion of trade (normalization) can enhance strong party's coercive power and influence effect. Prospect likely to create opposition to normalization.
Third-party involvement	Can provide substantial economic, political, or security side benefits that would increase the expected value of the peace treaty. Expected indirect benefits are sufficient to lead to the treaty.	Indirect benefits from third party are insufficient to promote normalization. Normalization requires direct benefits within the dyad. Third party can help by promoting and rewarding such direct cooperation.

Figure 4. Press-Barnathan, Summary of Hypothesis.¹⁶¹

What Press-Barnathan fails to address in the Arab–Israeli conflict is its regional triadic nature. She frames the conflict as it was in the Oslo Accords, as between Israel and Palestine, with the United States presiding as the third party. Instead, the recent Arab and Israeli Peace Initiatives are agreements centered on two different primary actors: the Arab League and Israel. While her assertion that third-party involvement will not bring normalization is borne out by history, the Arab States cannot necessarily be considered a third party, since they have played such a key role in the conflict. If a cold peace is contingent on broader economic interest, might those interests be strong enough to make big compromises attractive? And if a deal is brokered by an equally strong actor, a coalition of Arab States, will disparity still exist? While the answers to these questions are speculative, factoring them into a treatment of economics in the Arab–Israeli conflict is warranted, particularly in light of emerging movements.

¹⁶¹ Galia Press-Barnathan, “The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace,” *Journal of Peace Research* 43, no. 3 (May 2006): 270.

The Arab Peace Initiative itself is a product of peace, or so David Bearce's argument would suggest.¹⁶² Citing the fact that empirical evidence shows commercial peace reduces the incidence of militarized inter-state conflict but the literature does little to explain how, Bearce argues that the GCC was formed by the economically beneficial relationship that interstate trade fostered, which brought state leaders together regularly, built trust, and incentivized peaceful bargaining and interstate security coordination.¹⁶³ In support of this thesis, the principal architect of the Arab Peace Initiative, Prince Abdullah of Saudi Arabia, used the incentive of economic integration as the proposal's big prize. It would seem in practice that the GCC values economic incentive. But for them, the stakes are not high. If they can broker a successful peace deal, they will become the toast of the Middle East; if they can broker a broken peace deal, it will not be they who suffer; and if they broker no deal at all, they at least can claim the moral high-ground because they tried. For Israel, it is another matter.

While groups like the Israeli Peace Initiative are eager to extoll the virtues of economic peace (and there seem to be many), economic peace remains something of a mystery. International political economy is a marvelously complex organism and economic peace a multi-faceted and, ultimately, subjective phenomenon. Patrick McDonald writes:

The debate over whether and how international commerce alters the foreign policy of states, and in particular the decision of war, has gained renewed prominence in the fields of international security and international political economy. Despite substantial empirical support for the proposition that increasing levels of cross-border economic flows—defined either in terms of trade or capital movements—decrease the probability of conflict, scholars have yet to approach a consensus concerning the precise nature of this link.¹⁶⁴

However, there are some definite conclusions that can be drawn about the context in which economic peace flourishes. McDonald explains that the specifics of the trade

¹⁶² David Bearce, "Grasping the Commercial Institutional Peace," *International Studies Quarterly* 27, no. 3 (September 2003): 347.

¹⁶³ Bearce, "Grasping the Commercial Institutional Peace,": 347.

¹⁶⁴ Patrick McDonald, "Peace Through Free Trade?" *The Journal of Conflict Resolution* 48, no. 4 (August 2002): 547.

interaction are critical to establishing economic peace theory; economic peace can only be built on a foundation of free trade. When protectionism defines the economic relationship, trade can actually lead to conflict. His conclusions, based on empirical analysis, are fundamental to defining Israel's trade relationships. "As the domestic influence of protectionism grows, the capacity of consumers and exporters to lobby the state and produce a peaceful foreign policy declines."¹⁶⁵ Small, powerful groups are in a unique position to demand protectionism. Without broad-based integration that cannot benefit from political pandering, incentive will remain allied to, and even enforce, a political structure hostile to open competition, as Press-Barnathan conclusions seem to suggest.

This is the singular, most challenging aspect, of the case for economic peace in the Arab–Israeli conflict. The structure of the Israeli economy is in no way conducive to broad-based integration; elites on all sides hold monopolies in the political economy; huge power disparities exist; and a third party cannot alter these imbalances.

Though the discussion of peace economics usually ends there, evidence that a decline in the relationship between Palestinians and Israelis has occurred as contact diminishes has only received anecdotal attention. Neve Gordon writes about a story he told his Israeli students in 2006 about his own experience of learning to drive in Palestine in 1981, a year before he and all other Jewish settlers were required to move as part of the peace agreement with Egypt.

I described to my students how my friends from the farming communities located in the Sinai and the small town of Yamit took their lessons in the Palestinian town of Rafah and were among the first to pass their driving tests. My students found this story incomprehensible. They simply could not imagine Israeli teenagers taking driving lessons in the middle of Rafah, which, in their minds, is no more than a terrorist nest riddled with tunnels used to smuggle weapons from Egypt—weapons that are subsequently used against Israeli targets. The average age difference between me and my students is only 15 years but our perspectives are radically different. Most of my students have never talked with Palestinians from the Occupied Territories, except perhaps as soldiers during their military service. Their acquaintance with Palestinians is

165 McDonald, "Peace Through Free Trade?," 556.

consequently limited to three-minute news bytes that almost always report on Palestinian attacks on Israeli targets or Israeli military assaults on Palestinian towns. When I was a high-school student, by contrast, I frequently hitched a ride back from school with Palestinian taxis on their way from Gaza to Beer-Sheva. Within the current context of the Israeli-Palestinian conflict, this act is unfathomable.¹⁶⁶

Neither economic integration nor prosperity is a panacea. However, as a goal, both prosperity and integration can shift the context of the relationship between the two peoples. History has shown us the process in reverse, yet very little scholarship has tried to understand, much less harness, its subjective power in creating a different future.

¹⁶⁶ Gordon, *Israel's Occupation*, xvi.

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IV. NEGLECTED OR JANUS-FACED: THE MISSING ECONOMIC PEACE

The overall attitude of the government toward the industrialization of the Arab sector and the development of Arab-owned enterprises has been that these are, first and foremost political rather than economic problems. “Given the political sensitivity of these issues, one official of the Ministry of Commerce and Industry told me, “no man in government will say what they really think [concerning them].”

—Ian Lustick¹⁶⁷

Hostility is not an eternal factor. Even today, when the situation looks hopeless, we have to remember that nations hostile to each other for tens of years, found avenues to each other’s hearts when the political circumstances changed.

—Rabin, 1964¹⁶⁸

In 2002, Crown Prince Abdullah of Saudi Arabia along with the Arab League and prominent Arab businessmen crafted an initiative known as the Arab Peace Initiative, or Saudi Initiative, which has been re-ratified every year by the Arab League for eleven years.¹⁶⁹ This initiative comes at a relevant time. Gawdat Bahgat writes in “The Arab Peace Initiative: An Assessment,” the failure of the United States to find a solution to the Arab–Israeli conflict has converged with two recent events to make the Arab states not only more amenable to Israeli “normalization” than ever before, but interested in taking the lead on a new peace deal.¹⁷⁰

Unprecedented wealth in the GCC states has created both huge incentive and the financial means to maintain stability. From 1999 to 2007, barrel prices jumped from

¹⁶⁷ Ian Lustick, *Arabs in the Jewish State: Israel’s Control of a National Minority* (Austin: University of Texas Press, 1982), 184.

¹⁶⁸ Efraim Inbar, *Rabin and Israel’s National Security* (Washington, DC: Woodrow Wilson Center Press, 1999), 15

¹⁶⁹ Council of Arab States at the Summit Level at its 14th Ordinary Session 2002, “The Arab Peace Initiative.”

\$17.97 to \$72.39, grossing an estimated 1.8 trillion in revenue for GCC countries in 2007.

The Saudis also recognize a growing threat to their prosperity.¹⁷¹ The wars in Iraq and Afghanistan, which targeted Iran's two greatest enemies, the Taliban and Saddam Hussein, have inadvertently strengthened the Islamic Republic's national security. In addition to Sunni-Shiite religious differences, Arab states are concerned by Tehran's nuclear ambitions and have taken an engagement, as opposed to a confrontational, tack. "We are a neighbor to Iran in the Gulf, which is a small area, so we are keen for harmony and peace among countries in the region. We have relations with Iran and we talk with them and, if we feel any danger, we have relations that allow us to talk about it," said the Saudi foreign minister Saud Al-Faisal.¹⁷² A peace agreement with Israel would undermine the ability of Iranian Shiite as well as local Sunni radicals to "exploit the issue in the Arab street."¹⁷³ Israel has sought to highlight this common interest. At the 2008 Doha Forum for Democracy, Foreign Minister Tzipi Livni stated, "The Middle East's biggest challenge is the fight between moderates and extremists. And we, the moderates, are all part of the same camp, threatened by extremist forces in the region."¹⁷⁴ Put more bluntly, Shimon Perez echoed, "One reason for Israel to make peace with the Palestinians is to show the Sunnis of the Middle East that they need not be dominated by Iran and submit to a fanatical Shiite minority."¹⁷⁵ Economic and political conditions appear, from an optimist's perspective, ripe for cooperation.

However, from Israeli leadership's position, the situation is less rosy. What guarantees are there that the Gulf would grant full "normalization?" And what guarantee is there, in the turbulence of the Arab Spring, that Arab League proposals will be respected by future governments in Egypt and Syria? To be convinced that economic

171 Gawdat Bahgat, "The Arab Peace Initiative: An Assessment," *Middle East Policy Council*, Vol. XVI, No. 1 (Spring 2009), 1.

172 Bahgat, "The Arab Peace Initiative: An Assessment," 3.

173 Bahgat, "The Arab Peace Initiative: An Assessment," 4.

174 Bahgat, "The Arab Peace Initiative: An Assessment," 4.

175 Bahgat, "The Arab Peace Initiative: An Assessment," 4.

benefits will be forthcoming, Israeli leadership will likely require trade agreements to be drawn up. Israeli negotiators know that, if history is any guide, details are essential.

There are others who would simply like to get talks going. In March of 2011, a private Israeli group comprising businessmen, former IDF officials, and academics, drafted the Israeli Peace Initiative (IPI) as a response to the Saudi Initiative. The IPI proposes, along with a two-state solution on 1997 lines, economic development as the third rung of their four-step peace framework.¹⁷⁶ According to IPI, regime change in the Arab world and Israel's robust economy and grip on security present a unique opportunity for Israel to take the initiative in forming a new relationship through peace talks. Echoing the World Bank, they view economics as crucial, because economic prosperity is linked to security and stabilization. From academics to key Zionist politicians, there is widespread consensus that poverty, unemployment, and a sense of bitterness are the perfect storm for unrest. IPI's September 2011 memo states:

The central theme of the IPI Group—that the status quo is dangerous and that Israel must take the initiative and present a regional proposal—is fast becoming more and more relevant. Even Israel's intelligence organizations recently said that only a political initiative and effective negotiations will calm the region. At the same time, there are indications that our concerns about the economic implications are justified.¹⁷⁷

It is not difficult to see why economic peace has both practical and theoretical appeal for both Israelis and Arabs who anticipate economic gains for their countries. IKV Pax Christi, an independent research organization, finds that nearly every quantitative study found a negative correlation between conflict and economic interdependence, leading some liberalist scholars to suggest that capitalism, not democracy, is at the root of peace.¹⁷⁸ Since the post-1967 era of General Moshe Dayan's liberal social and economic

¹⁷⁶ Aviel Magnezi, "Authors of peace initiative invite Bibi to take lead: Authors of initiative that calls for two-state solution with 1967 borders say Prime Minister Netanyahu could win public support for their peace proposal," *ynetnews.com*, April 6, 2011.

¹⁷⁷ Alon Ilay, *A New Point of View—Food for Thought*. Point Paper, Israeli Peace Initiative, 2011.

¹⁷⁸ IKV Pax Christi, *Analysing Israel's Economic Policy Towards Palestine and the Practical Implications of Netanyahu's Economic Peace*. Commissioned, Amsterdam: IKV Pax Christi, 2012. 10

policies, Arab–Israeli relations have worsened on the street, despite democratic representation in both Israel and the occupied territories.¹⁷⁹

However, despite the advantages of cooperation, Israel’s nationalist-centered politics and economic structure are geared toward the perpetuation of conflict: not with Arab States, but with the proximal occupied territories. Although opening markets in Arab states and gaining their support is a coveted prize for Israel; the dynamics of Israel’s political and economic systems are particularly unsuited to making the compromises necessary to lay the foundations of the API or the IPI.

Yitzhak Rabin believed the only way to avoid violence and bring all parties to the negotiating table was for Israel to achieve a position of regional dominance.¹⁸⁰ Ironically, Israel’s strength, its economic strength in particular, is now the greatest obstacle to the course of economic peace. The fact that Israel’s economy has not appeared to suffer as a result of the conflict means that the very foundation for economic peace—economic incentive—is absent. Certainly economic integration into the Middle East would boost Israeli trade, but entrenched sectors of Israel’s economy that depend on military funding will potentially suffer. Shir Hever writes,

Although peace negotiations with the Palestinians have come to a standstill, and Israel’s military opponents (mainly Hamas, Iran, and Hezbollah) have proved they can pose a significant and ever-increasing challenge to Israel’s regional military dominance, the Israeli economy seems to be prospering. Economists have therefore changed their tune, arguing that security and political issues are unrelated to economic issues, and that sound “free market” economic policies can generate sustained growth even in the middle of a state of conflict.¹⁸¹

This conclusion suggests that, in fact, Israel’s R&D investments are unaffected, and even thrive, under continued conflict. Raoul Caruso writes that in order for economic peace to be successful, a country must pursue: “policies to reduce unproductive spending as military expenditures, policies to reduce the reliance of economies on contested

179 Doran, “Mideast Peace Can Start with Economic Growth,” 1.

180 Efraim Inbar, *Rabin and Israel’s National Security* (Washington, DC: Woodrow Wilson Center Press, 1999), 15

181 Hever, *The Political Economy of Israel’s Occupation*, 54.

sectors, and policies to favor the allocation of resources to uncontested production in productive sectors.”¹⁸² For economic peace to succeed, Israel must alter the military’s role in its economy and discontinue supporting “contested” sectors of its economy, for example, the funding of settlements on the West Bank.

Despite the fact that there is nothing “free” about the Palestinian market and very little in the Israeli market that is unsheltered by state protectionism, Prime Minister Netanyahu continues to employ the discourse of economic peace and “free trade” in an entirely rhetorical fashion, while manipulating the Palestinian economy by tightening and loosening sanctions and checkpoints in the West Bank and Gaza to send political messages.¹⁸³ In response to protest, like the West Bank boycotts of products made in illegal settlements and opposition to Israel’s entrance into the OECD, Prime Minister Netanyahu sidestepped legitimate concerns, as well as the fact they were peacefully expressed, by officially stating, “Israel is aiming for peace and economic prosperity. The Palestinians must decide if they are aiming for peace or not.”¹⁸⁴

The real choice for Palestinians in the OT currently seems to be between accepting hegemony and resorting to some degree of “terrorism.” The West Bank and Gaza have as little political power as they do economic, a reason scholars like Raja Khalidi and Sobhi Samour have dismissed economic peace altogether. They argue a neoliberal approach:

cannot succeed either as the midwife of independence or as a strategy for Palestinian economic development. Its weaknesses... derive not only from neoliberalism’s inability to deliver sustainable and equitable economic growth worldwide, but also because neoliberal “governance” under occupation, however “good,” cannot substitute for the broader struggle for national rights nor ensure the Palestinian right to development.¹⁸⁵

182 Raul Caruso, “On the Nature of Peace Economics,” *Peace Economics, Peace Science, and Public Policy* 16, no. 2 (2010), 9.

183 Mazul Mualem, “Netanyahu to PA; Israel Boycott is Only Hurting Yourselves,” *Haaretz*, May 24, 2012.

184 Mualem, “Netanyahu to PA”

185 Raja Khalidi and Sahir Taghdisi-Rad, *The Economic Dimensions of Prolonged Occupation: Continuity and Change in Israeli Policy Towards the Palestinian Economy* (New York: United Nations Conference on Trade and Development, August 2009), 1.

While Israel's economy continues to grow, the occupation is steamrolling the Palestinian economy, eliminating state autonomy along with political sovereignty. In 2008 and 2009, the separation wall, still under construction, decreased West Bank trade (90 percent of which is exported to Israel in any case) by 30 percent.¹⁸⁶ In 2012, security checks at crossing points, which are often inadequately staffed and have limited working hours, numbered over 500.¹⁸⁷ Queues for these checkpoints can begin at 4 a.m., and trucks are only allowed one delivery per day and can contain only one type of product. These procedures are especially hard on Palestinian farmers, who rely on rapid transport to maintain the quality of their products. The frequent denial of entry for West Bankers into East Jerusalem, the heart of the West Bank economy, has also had a markedly negative effect.¹⁸⁸ President Netanyahu's calls for "economic peace" sidesteps key details, like the fact that the 25,000 Palestinians employed by the hotly contested settlements do not exemplify economic cooperation; rather, like Israel's imposed trade imbalance, they constitute economic hegemony. In 2009, Israel exported \$15 billion worth of goods to Palestine, while Palestinian exports to Israel, by far its primary export and import locality, totaled a mere \$1.5 billion.¹⁸⁹ For Palestine, policy implemented in the name of economic peace has amounted to economic occupation. Contradictions between Israel's official position and official policy have an extensive history.

These many contradictions include, among other things, the construction of illegal settlements in areas from which Israel intended to withdraw, the annexation of areas without the concomitant bestowal of citizenship on the annexed population, investing effort to improve the standard of living of occupied Palestinians to make them more docile, followed by the launch of brutal attacks which destroy the infrastructure necessary for the survival of the Palestinian population...welcoming of international aid...while at the same time [erecting] obstacles to aid.¹⁹⁰

186 Rivlin, *The Israeli Economy*, 207.

187 Rivlin, *The Israeli Economy*, 207.

188 Rivlin, *The Israeli Economy*, 207.

189 Mualem, "Netanyahu to PA."

190 Hever, *The Political Economy of Israel's Occupation*, 7.

Based on this poor track record, Palestinian leadership rejects economic, neoliberal solutions in favor of renewed political approaches.¹⁹¹ Despite the fact that neither politics nor neoliberalism will singlehandedly bring peace, the debate is polarized between economics and politics, while a comprehensive bilateral approach is overlooked. Khalidi and Samour's protest that neoliberalism will not alleviate root Palestinian grievances fits with the criteria for economic peace, which should never be confused with unqualified economic integration or economic improvement. This point must be taken into consideration by the Israeli and Arab initiatives and by Secretary Kerry in his current economic peace plan in order to ensure success, but a redress of inequality appears to be absent from all three plans. Koby Huberman, key architect of the IPI, concedes that broader regional cooperative peace will have nothing to do with economic cooperation with the Palestinian "man on the street." "We do not deal with managing the daily life of the Palestinians. We deal with a regional arrangement which includes a detailed analysis of the need to advance a regional economy."¹⁹² But the advancement of a regional economy is not comprehensive enough to be called economic peace.

Economic peace describes unmediated, continual interaction. According to Press-Barnathan, economic peace *only* prevents conflict when integration touches every level of the social hierarchy on both sides¹⁹³. McDonald argues that agreements built around protectionism can actually incite conflict, a significant obstacle in a region where the state is the most important economic actor.¹⁹⁴ Lack of equal footing in either the political or economic sphere between Israel and Palestine mean that trade free from protectionism is currently unattainable—but free trade is pivotal in the success of economic peace. "Until Palestinians can negotiate from a position of strength, all such agreements, which are forged under the illusion of normal relations between Palestinians and Israelis, glossing over the inequalities inherent in dispossession and occupation, could create long-

191 Khalidi and Taghdisi-Rad, *The Economic Dimensions of Prolonged Occupation*, 27.

192 Huberman, Koby. E-mail, 4/8/2013.

193 Press-Barnathan, "The Neglected Dimension of Commercial Liberalism: Economic Cooperation and Transition to Peace," 260-265.

194 McDonald, "Peace Through Free Trade?," 556.

lasting damage to the Palestinian economy.”¹⁹⁵ In other words, without balanced power, any new peace agreement will fail as badly as the Oslo Accords.

In addition to the structural obstacles between Israel and compromise with the Arab League, are two important calculations: the fundamentalist–nationalist political power of the settlements and the government’s mandate to provide security. The awkward fact remains that, despite the potential economic rewards of normalization, withdrawing support for settlements is as difficult as convincing the Israeli people that there could be an end to Palestinian violence. When Israelis are asked whether they would support a Palestinian state based on 1967 borders if Palestinian violence ceased, 51 percent agree.¹⁹⁶ Another 21 percent oppose, but only because they do not believe Palestinian violence will cease.¹⁹⁷ When asked, “In light of the severe security situation, there are two possible extreme solutions: transfer of the residents of the territories, or withdrawal to the 1967 lines and settlement evacuation. Which would you choose?” Twenty-nine percent support transfer, 35 percent support withdrawal, and 29 percent believe neither serves Israel’s interests, according to two different polls conducted by the Tami Steinmetz Center for Peace Research at Tel Aviv University in 2002.¹⁹⁸ It is evident from the wide range of responses that polls about settlements, and peace in general, are difficult to take because the questions are hypothetical. However, it is easy to understand why the government successfully supports the settlements: why would Israelis forfeit the rights of their own people for the sake of an impossible dream? In this respect, the security debate meets the settler debate—and for this reason, the security calculation must be turned on its head before economic incentive has a chance.

A. ECONOMICS, POLITICS, AND THE OSLO ACCORDS

The great events of history are often due to secular changes in the growth of population and other fundamental economic causes, which, escaping by

195 IVK Pax Christi, *Analyzing Israel’s Economic Policy Towards Palestine* (Amsterdam: IVX Pax Christi, 2012), 13.

196 Dahlia Scheindlin, “What do Israelis think of 1967 borders with swaps?” *927 Magazine*. May 22, 2012.

197 Scheindlin, “What do Israelis think of 1967 borders with swaps?” 1.

198 Scheindlin, “What do Israelis think of 1967 borders with swaps?” 1.

their gradual character the notice of contemporary observers, are attributed to the follies of statesman or the fanaticism of atheists.

—John Maynard Keynes¹⁹⁹

In many ways, the API and IPI are a continuation of the Madrid Peace Talks, which were derailed by the Oslo Agreements in the mid-nineties. For the last twenty years, the Arab states have been largely silent and the conflict has focused on Israeli–Palestinian relations. Economic cooperation has generally been conceived of by politicians, bankers, and businessmen as highly localized. The World Bank’s 2005 project, for example, relied on border transit routes between Israel and Gaza without taking into account Israel’s larger problem of incentive. Economic growth in Gaza simply does not benefit Israel’s economic or political interests. However, Israel would profit tremendously, both politically and economically, from cooperation with the larger Arab world; if allowing Gaza border access to Egypt, sea ports, and the West Bank were the price of Arab cooperation, Israel might be willing to pay it. Political leaders alone are incapable of forging such an alliance, although they are a necessary part of its ratification, because such an agreement requires the organic participation of independent business interests.

While the success of economic cooperation may depend on specific, limited factors, the argument that cooperation is impossible in a protracted conflict has no empirical basis. Very little research has so far explored how economic integration not only correlates with peace or maintains peace, but how it can build peace. So far, the extensive scholarly literature on the Arab–Israeli conflict has almost nothing to say about how economic integration might ameliorate relationships. Instead, attention is paid to the importance of state power, discounting the role of capital on its structuring and maintenance. The very few analyses that have been done, like the commissioned research paper by the IKV Pax Christi Group,²⁰⁰ tend to dismiss economic peace for lack of

199 John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920), 106.

200 IKV Pax Christi, *Analysing Israel’s Economic Policy Towards Palestine and the Practical Implications of Netanyahu’s Economic Peace*. Comissioned, Amsterdam: IKV Pax Christi, 2012

evidence, or because there appear to serious obstacles to its success, without examining the relationship economics has to political ideas and to security itself.

Concerning Netanyahu's "economic peace" rhetoric, the IKV Pax Christi report determined (with little regard for how practical incentive between the two parties might be integral to a solution) that overtures toward economic liberalization in the West Bank would be ineffective if the conflict were not addressed on a political level first. In some respects, this assertion is true: since private enterprise has not built a bridge to peace on its own, it seems pressure from outside Israel's market is a vital ingredient. However, reliance on diplomatic solutions, much like the argument for first establishing security, has also failed to address problems at the root of the conflict, problems the majority of the population face on a daily level: the need for jobs, education, and hope for a future. One need look no further for an example of the failure of a top-down political solution than the Oslo Accords. According to Edward Said, despite Yitzak Rabin's assassination, the Hebron massacre, and the bellicose Binyamin Netanyahu period from 1996–99, the Oslo agreements would have been a wrap were it not for the al Aqsa Intifada in September 2000. As Said writes,

With Ehud Barak's assumption of power in May 1999 things at first speeded up, so much so that a comprehensive peace between Israel, the Palestinians, Syria, and Lebanon may have seemed possible were it not for the Intifada. All the Arab leaders, minus their people, seem to want it.²⁰¹

Scholars as disparate in viewpoint as Alan Dershowitz and Noam Chomsky agree that the short-lived Taba Negotiations in the wake of al Aqsa were the closest Israel and Palestine have ever got to peace, but, again, domestic political interests took precedent.²⁰²

The erroneous assumption in the IKV Pax Christi Report is the idea that that economics is not integral to any contexts of conflict amelioration and can be isolated from the political elements to a solution. This fundamental misconception fuels the

²⁰¹ Edward Said, *The End of the Peace Process: Oslo and After* (New York: Random House, 2001), xiv.

²⁰² Noam Chomsky and Alan Dershowitz, "How to End the Israeli–Palestinian Conflict," Harvard University Kennedy School of Government: Book TV C-Span 2, n.d.

illusion that economic deprivation, imposed by Israel, is merely a peripheral source of the contemporary conflict in the minds of ordinary Palestinians.²⁰³

The Oslo Accords never specified how Palestine was to attain autonomy or, if not independence from the Israeli economy, economic equality with it. By excluding a plan for how the promised free trade and liberalization would practically take shape, Oslo ensured the OT's economic wings would remain clipped. The man on the street was sure to see none of the cooperation supposedly guaranteed by the Paris Protocol; rather, he was sure to witness the intensification of de-development and economic sabotage at Israel's hand. What Oslo can tell us is that a political solution is not complete without an economic one, and further research is needed into the relationship between the two.

B. ECONOMIC PEACE-BUILDING IN CONTEXT

The standard model applied in post-conflict reconstruction generally aims to establish improvement in three main areas: security, good governance, and economic opportunity.²⁰⁴ While the U.S. government has consistently addressed these areas in over twenty years of post-conflict reconstruction, a coherent methodology that combines the redress of immediate needs with long-term, sustainable development has yet to be successfully implemented. In this conflict, long-term economic health is particularly difficult to develop because it requires both substantial levels of good governance and security to allow equal access to opportunities and resources.²⁰⁵ However, when poverty is pervasive, it is very difficult to establish rule of law and security free of corruption and, as Johanna Forman asserts, the U.S. has no game plan for solving resource-driven conflicts. In countries where control of a natural resource or the share of profits to be made from conflict is integral to the political economy, it is difficult or impossible to establish a legal regulatory framework strong enough to be impartial.²⁰⁶

203 IVK PAX Christi, *Analyzing Israel's Economic Policy Towards Palestine*, 4.

204 Joanna Forman, "Achieving Socioeconomic Well-Being in Postconflict Settings," *The Washington Quarterly*, (2002), 125.

205 Forman, "Achieving Socioeconomic Well-Being in Postconflict Settings," 126.

206 Forman, "Achieving Socioeconomic Well-Being in Postconflict Settings," 129.

Though many by default assume the conflict is a completely ideologically driven, resource scarcity is another framework by which to understand the Palestinian–Israeli enmity. Nigel Roberts writes, “Stripped of its religious and ideological characteristics, the Israeli–Palestinian conflict is a struggle about land and the existential security that people derive from uncontested possession of a national home.”²⁰⁷ However, the reason this conflict can never be stripped down is because ideology feeds off economic scarcity— as dispossession increases, so does radicalism. Paul Collier writes:

In the economist’s view of conflict, grievance will turn out to be neither a cause of conflict nor an accidental by-product of it. Rather, a sense of grievance is deliberately generated by rebel organizations... [grievance] may be based on some objective grounds for complaint, or it may be conjured up by massaging prejudices. However, while this distinction is morally interesting to observers—is the cause just?—it is of no practical importance.²⁰⁸

Using data from civil wars from 1965–1999, Paul Collier found several socioeconomic red flags that prominently feature in the Israeli–Palestinian conflict.²⁰⁹ First, Collier found that if a country has an unusually large diaspora, chances that a conflict will reignite is 36 percent, as opposed to countries with a small diaspora, which is only 6 percent.²¹⁰ Diasporas that inhabit conflict-free zones, which are generally more prosperous, are able to finance conflict that they themselves are removed from. Diasporas can therefore fund homeland conflicts indefinitely, which they often view romantically from their distant vantage, with no direct experience of the violence. Moreover, as Collier points out, “Diasporas...may continue to nurse grievances as a form of asserting continued belonging.”²¹¹ Israel, of course, was founded by and remains dependent on the financial support of the Jewish diaspora. The Palestinian displacement has created a

207 Nigel Roberts, “Hard Lessons From Oslo: Foreign Aid and the Mistakes of the 1990s” in *Aid, Diplomacy, and Facts on the Ground*, edited by Anne Le More, Robert Lowe, and Michael Keating, (Washington, DC: The Brookings Institution, 2005), 21.

208 Paul Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” *Leashing the Dogs of War: Conflict Management in a Divided World*, edited by Chester A. Crocker, Fen Osler Hampson, Pamela R. Aall, (Washington, DC: U.S. Institute of Peace Press, 2007), 199.

209 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 202.

210 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 202.

211 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 210.

massive, landless diaspora, thousands of whom have been living in refugee camps for the last sixty years. Like the Jewish diaspora, displaced Palestinians raise money from outside sources to fund their cause in the homeland, much like the Tamil Tigers of Sri Lanka, supported by Muslims in Canada, or the Kosovo Liberation Army, funded by Albanians in Europe.

Secondly, the dispersion and composition of ethnic and religious identity between Jews and Arabs in the broader region of Israel–Palestine teeters at the most precarious demographic point possible. Collier found that if a region is divided between only a few ethnic or religious groups and the dominant group constitutes close to, but less than, a controlling share, the risk of conflict doubles, because discrimination against the non-minority group ensures the consolidation of power within the dominant group.²¹² By contrast, when a country has a vast array of ethnic and religious groups, political–economic alliances on ethnic–religious lines may function only if coalitions are formed, forcing a cooperation that makes for a safer society. In the case of Israel, the demographic threat of the Arab population, which surfaces in debates over such topics as the right of return for Palestinian refugees, threatens Jewish dominance in Israel.

These conditions are, according to Jackson-Preece, all the more precarious in the model of the nation-state.²¹³ As she puts it, “ethnic cleansing has been used as an instrument of nation-state creation for as long as homogeneous nation-states have been the ideal form of political organization.” Where there is “a people” there is always an “other,” and as long as the nation-state exists as the ideal political model, so will ethnic cleansing.²¹⁴ This dynamic can also provoke maximal aggression in the minority population. Collier writes, “In societies characterized by ethnic dominance, the minority has little to hope for from the political process. Thus it is possible that rebellion in societies with ethnic dominance is the behavior of despair.”²¹⁵ Collier also found that the

212 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 210.

213 Jennifer Jackson-Preece, “Ethnic Cleansing as an Instrument of Nation-State Creation: Changing State Practices and Evolving Legal Norms.” *Human Rights Quarterly* 20 (1998): 817–42.

214 Jackson-Preece, “Ethnic Cleansing as an Instrument of nation-State Creation: Changing State Practices and Evolving Legal Norms,” 826.

215 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 209.

more ethnically and religiously homogeneous a country, the more unsafe—risk of conflict increases by 23 percent above a broadly heterogeneous country.²¹⁶ The persistence of ethnic (Arab vs. Jewish) and religious (Muslim vs. Judaic) as the dominant criteria upon which territory and political rights are based has made a democratic solution problematic, if not impossible. The magnitude of identity politics in the Arab–Israeli conflict is less about the specifics of these fundamental religious and ethnic differences than about the fear of domination by an allied and equally matched group, in terms of strength and population.

To manage ethnic conflict, there are essentially two solutions, apart from genocide and apartheid: change the political structure of the nation-state or change the territorial borders. In his analysis of consociational democracies, Lijphart provides a map for how states can politically achieve compromise across ethnic lines while maintaining autonomous political authority within their community.²¹⁷ This is achieved through four principles: each ethnic group has its own political leader; each has mutual veto; each is represented proportionally, based on population size, in the military, civil affairs, etc.; and each has the authority to make community-based laws. This model encourages cooperation and mitigates conflict through political representation.²¹⁸ Critics of consociationalism argue that its structure creates incentive for elites to entrench ethnic divisions (as opposed to class or gender differences) as the ultimately defining basis for political choice; but this is not a threat in this conflict, because it is already so undeniably the case.²¹⁹ However, there is no evidence that the Israeli majority is willing or interested in creating a secular, non-Jewish state or a co-dominant Arab–Jewish state, ruling out a consociational single-state solution. Apart from apartheid, genocide, and forcible deportation, the one state cannot function as a democracy unless Israelis are willing to give up Jewish dominance.

216 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 203.

217 Arend Lijphart, “Consociational Democracy,” *World Politics* 21 (2), 1969. 207–25.

218 Arend Lijphart, “Consociational Democracy,” *World Politics* 21 (2), 1969. 207–25.

219 Eiki Berg and Ben-Porat, “Introduction: Partition vs. Power Sharing,” *Nations and Nationalism*, (Blackwell Publishing, 2008)

When a political solution is nonviable, secession is a potential management solution, particularly when an ethnicity is located in a distinct geographical region.²²⁰ O’Leary distinguishes the relationship between partition and secession as a question of agency: there is a huge difference between a partition that simply aids in a planned, mutually-agreed-upon secession and a partition that functions as a “fresh cut” executed by the dominant political power across a shared homeland.²²¹ O’Leary argues that a true partition, a fresh cut made by the ruling class, has always caused more violence during and after its creation, and should only be used in cases where it can be demonstrated to mitigate genocide.²²² Fresh cuts like the 1947 externally imposed division between India and Pakistan took hundreds of thousands of lives.²²³ As an alternative, Brendan O’Leary and Jerry Muller suggest regional distinctions be drawn, as in Kuwait.²²⁴ Whether territorially or politically, tolerating heterogeneity, rather than weeding it out, paradoxically results in better chances for long-term cohesion. Israel’s construction of the wall increases tensions, and, ludicrously, Israel’s simultaneous construction of West Bank settlements undermines the potential for a territorially cohesive secession. Where, then, is the political solution?

Unrest, in Palestine specifically, can also be seen as a symptom of rapid population growth with economic decline. Collier found that every percentage point in the rate of population growth raises the risk of conflict by approximately 2.5 percentage points.²²⁵ The risk of conflict also increases one percentage point for every percentage point that per-capita income is reduced.²²⁶ In a study of conflict in Africa, a strong correlation was found between wealth and civil war by using rainfall as a control; when rainfall was above average, so was economic growth, and civil war was less likely; when

220 Berg and Ben-Porat, “Introduction: Partition vs. Power Sharing.”

221 Brendan O’Leary, “Analyzing Partition: Definition, Classification and Explanation,” *Political Geography* vol. 26, (2007), 907.

222 O’Leary, “Analyzing Partition: Definition, Classification and Explanation,” 907.

223 Jerry Z. Muller, “Us and Them: The Enduring Power of Ethnic Nationalism,” *Foreign Affairs*, Vol. 87, No. 2 (Mar.–Apr., 2008), pp. 18–35.

224 O’Leary, “Analyzing Partition: Definition, Classification and Explanation,” 907.

225 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 202.

226 Collier, “Economic Causes of Civil Conflict and their Implications for Policy,” 202.

rainfall was sparse, growth fell and conflict broke out.²²⁷ By linking the source of slow economic growth to rainfall rather than the effects of conflict itself, Edward Miguel, Shanker Satyanath, and Ernest Sergenti were able to show that economic malaise could be a direct cause of conflict rather than merely its result.²²⁸

C. OSLO: EVIDENCE FOR THE CO-DEPENDENCE OF POLITICS AND ECONOMICS IN SECURING PEACE

What became known as the Oslo Accords began with secret talks, initiated by Israel's deputy foreign minister, Yossi Beilin, between two Israeli academics (Yair Hirschfeld and Ron Pundak) and three close associates of Yasser Arafat (Ahmed Qurei, Hassan Asfour, and Maher al-Kurd).²²⁹ These talks were headed by FAFO, a major European peace-research institute in Oslo, Norway.²³⁰ The talks began informally in the summer of 1992 as a back channel to the stalemated official talks, moderated by the U.S., at the Madrid Peace Conference of October 1991.²³¹ The 1989 collapse of the Soviet Union meant less support for Arab secular nationalism from a number of Arab political players, including the PLO, and therefore more incentive for concessions to be made.²³² It also meant the landscape had changed. Uri Savir, who was later directly involved in the talks, recalls one of this issues discussed at the time.

Religious fundamentalism, which thrives on poverty, was now a serious threat to most of the regimes in the region—especially in the case of Iran, which was exporting terror and developing nonconventional weapons. As a result, economic development had become more important to those Arab governments than traditional strategic considerations. The United States was being courted by almost every country in the area, and a

227 Collier, "Economic Causes of Civil Conflict and their Implications for Policy," 202.

228 Edward Miguel, Shanker Satyanath, and Ernest Sergenti, "Economic Shocks and Civil Conflict: An Instrumental Variables Approach," *Journal of Political Economy*, vol. 112, no. 4, 2004: 725, 725-751.

229 Uri Savir, *The Process: 1,100 Days that Changed the Middle East* (New York: Random House, 2001), 2.

230 Savir, *The Process*, 2.

231 Savir, *The Process*, 2.

232 Savir, *The Process*, 5.

demonstration of stability was the only way to attract serious economic investment and American political involvement.²³³

Consequently, many Arabs were beginning to view Israel as a potential economic partner. The intifada had thus far brought neither political nor economic progress. The PLO, exiled and diplomatically isolated in Tunisia after Yasser Arafat's fateful literal and figurative embrace of Saddam Hussein—and on the verge of bankruptcy—was now threatened by the intifada “homegrown” leadership.²³⁴

In his first Oslo meeting, Uri Savir writes that one of the first topics of discussion was economics. He quotes PLO negotiator Ahmed Qurei as saying,

We want to cooperate with you toward developing the region; encouraging the creation of a Marshall Plan for the Middle East; developing our economies, so that we can open the doors to the Arab world for you and to freedom for ourselves. The situation in the occupied territories is desperate, politically and economically. Time is running out.²³⁵

Economic arrangements, primarily outlined in the Paris Protocol, became a key topic of the accords.

The Madrid Conference, meanwhile, was facing several roadblocks. Under the leadership of Hafez al-Assad, Syria, Israel's most staunch Arab opponent demanded the Golan Heights, which, by now had 12,000 Israeli settlers. This became a single-issue sticking point that threatened to stall further negotiation.²³⁶ The talks were further stalled by the November 1992 U.S. election, which saw the retirement of the Bush–Baker team²³⁷. As Uri Savir writes,

The ideologically and politically rigid Syrians were moving very slowly if at all. The Jordanians had signaled that until a breakthrough had occurred

²³³ Savir, *The Process*, 5.

²³⁴ Keating, *Aid, Diplomacy, and Facts on the Ground*, 18.

²³⁵ Savir, *The Process*, 14.

²³⁶ Itamar Rabinovich, “The Brink of Peace: The Israeli-Syrian Negotiations.” Princeton: Princeton University Press, 1998.73.

²³⁷ President George Bush and his Secretary of State James Baker began, in 1992, the most comprehensive effort at peace negotiation since the Carter administration. *Aid, Diplomacy, and Facts on the Ground*, 44.

with the Palestinians, they too would continue to wait. And so the Palestinians, the weakest link in the chain, were the key to peace.²³⁸

Hafez al-Assad, a notoriously tough negotiator, was more firm and demanding than the beleaguered PLO, and Israel saw an opportunity.

The gist of the ensuing Oslo agreements was that the Israeli Civil Administration would gradually relinquish control over Gaza and the West Bank to the Palestinian Authority (PA), the PLO's civil administration, until a more permanent law-and-order body and peace arrangement was established. The international community would act as an essential third party, the mediator and arbiter of disputes, the compliance enforcer for both sides, and the financier.²³⁹ This plan was intended to build trust between the two peoples by demonstrating cooperation between Israel and her longstanding bitter enemy, the PLO. The PLO, along with its Palestinian Liberation Army (PLA), was to become, essentially, Israel's guardian. This bold idea was based on the underlying assumption that a more long-term solution would soon be found.

In return for the PA's acceptance of a policing role, the PA was given two critical prerogatives, a risky diplomatic move.²⁴⁰ The first of these was the integration into the Palestinian financial system of certain "opaque elements that could operate beneath any "radar screen" of public accountability" that would allow President Arafat "what was referred to by some diplomats as 'walkabout money.'"²⁴¹ These included, in the context of the 1994 Paris Protocol on Economic Relations, the establishment of monopsonistic supply arrangements that exported key commodities, most notably, petroleum products and cement from Israeli suppliers exclusively to an account controlled, not by the PA treasury, but by President Arafat alone.

The second was wide discretionary leeway on human-rights obligations by PA governance. President Arafat argued this was a necessary measure to counter the deep-

²³⁸ Savir, *The Process*, 5.

²³⁹ Roberts, *Aid, Diplomacy, and Facts on the Ground*, 18.

²⁴⁰ Roberts, *Aid, Diplomacy, and Facts on the Ground*, 18.

²⁴¹ Roberts, *Aid, Diplomacy, and Facts on the Ground*, 19.

seated resentment toward Israel on the street. These two features of the agreement created the impression for many Palestinians that the PA was corrupt, uncaring, and ineffective.²⁴²

Meanwhile, the core of the conflict, the relationship between security, sovereignty, and land, remained untouched. The furthest the Oslo Accords went in addressing the ongoing issue of settlements was to state under Article IV of the declaration of principles, “The two sides view the West Bank and Gaza as a single territorial unit, the integrity and status of which will be preserved in the interim period.”²⁴³ Israeli settlement in Gaza and the West Bank, including East Jerusalem, involves the seizure of Palestinian land, enforced by the Israeli military. Between 1993 and 2000, a time when both sides were ostensibly serious about building trust, the number of Israeli settlers in the occupied territories increased from approximately 240,000 to 373,000, leading many Palestinians to conclude that Oslo was a ploy by Israel to derail the first intifada and strengthen Israel’s grip on the West Bank.²⁴⁴

In 2002, following the second intifada, President Bush introduced the “roadmap,” endorsed by both the PA and Israel.²⁴⁵ However, lack of political will to enforce the frustratingly vague agreements remains the plaguing issue. Israel continues to build settlements and Palestinians continue to have slim recourse. Israel controls the West Bank and Gazan economies primarily through control of all entry/exit points in Palestinian areas and more than 700 makeshift checkpoints within the country—limiting international commercial access—and through the two-color license-plate travel system, in which Palestinians are issued a license plate that prohibits access to certain highways.²⁴⁶ The situation today looks very much like what Thomas Freidman predicted

242 Roberts, *Aid, Diplomacy, and Facts on the Ground*, 20.

243 Roberts, *Aid, Diplomacy, and Facts on the Ground*, 21.

244 Roberts, *Aid, Diplomacy, and Facts on the Ground*, 21.

245 Anne Le More, “Are ‘Realities on the Ground’ Compatible with the International State-Building and Development Agenda,” *Aid, Diplomacy, and Facts on the Ground, The Case of Palestine*. Edited by Anne Le More, Robert Lowe and Michael Keating. Washinton, D.C.: The Brookings Instituion, 2005, 30.

246 Le More, *Aid, Diplomacy, and Facts on the Ground, The Case of Palestine*. 30.

in 1989: “The Israelis will remain on top, the Palestinians will make sure that they never enjoy it, and everything else will just be commentary.”²⁴⁷

The question is, why? If Israel is primarily to blame, or at least not helping, as a plethora of notable scholars, independent researchers, and journalists have concluded, what is Israel’s motivation?

Israel proclaims its priority is security, above all else, because the state has a mandate to protect its citizens—all of whom are potential victims of suicide attacks. Israel’s “security first” predates both intifadas, but justifies Israel’s tight control over movement in the occupied territories, strangling economic growth, midnight raids, and peaceful demonstration. The Jerusalem Media Centre & Communication Centre stated in 1994:

“Security” reasons have provided the Israeli authorities with a convenient excuse to refuse anything from planting tomatoes to not publishing a budget for the occupied territories in 25 years. Discriminatory practices abound, from prohibiting picking wild thyme to restrictions on setting up a business, export to Europe and registering every single tractor.²⁴⁸

As Michael Keating points out:

It is not at all clear whether these measures will increase Israel’s security. How can the presence of millions of disenfranchised, impoverished, angry, and traumatized Palestinians living in squalid conditions in a small, crowded geographical area and restricted in their movements ever be a basis for Israeli security?²⁴⁹

Israel’s stranglehold over the Palestinian economy, its most pervasive sphere of control, suggests that Israel fears that Palestinian economic development will evolve into economic independence, leading to political independence.²⁵⁰ This was in fact the PLO’s ostensible objective and the reason they placed so much emphasis on economic growth in the Oslo negotiations.²⁵¹ However, in the final settlement, the PLO leadership was more

247 Thomas Freidman, *From Beirut to Jerusalem* (New York: Random House, 1990), 243.

248 Jerusalem Media & Communication Centre, *Israeli Obstacles to Economic Development*, 3.

249 Michael Keating, “Introduction,” *Aid, Diplomacy, and Facts on the Ground*, 11.

250 Jerusalem Media & Communication Centre, *Israeli Obstacles to Economic Development*, 3.

251 Lavie, “The Israeli-Palestinian Economic Agreement and Current Consequences,” 1.

concerned with retaining power than with the long-term economic welfare of the state, as the final PLO settlement attests. While arrangements for Yasser Arafat's personal finance were extensive and detailed, Oslo contained no specifics about the implementation of long-term economic recovery in the territories.

During the first intifada, Palestinians had taken actions to foster an independent economy, such as the establishment of "Intifada farms" that raised produce, livestock, and dairy; boycotts of Israeli products; and refusal to pay taxes.²⁵² These peaceful protests were supported, although not directly affiliated, with violent militarized protest by Hamas, a group that drew ranks from the prison system. It is unsurprising that Hamas, which stems from religious radicalism rather than from the PLO's secular nationalism, was formed in the most squalid region of the OT: the refugee camps in the Gaza Strip. While 10 percent of the West Bank population lived in refugee camps, 25 percent, or over 180,000 Gazans, were living in camps. Half of these Gazan refugees lived in squalid conditions, with no running water and open sewage in the streets.²⁵³ During the 1980s, over half of the male workforce in Gaza and one third of the workforce in the West Bank were employed in Israel, which virtually eliminated unemployment in the territories.²⁵⁴ However, this did not indicate improved relations. In their daily trek across the border, Gazans and West Bankers saw the vast disparity between their living conditions and those of the Israelis. In Israel, they were subjected to humiliating strip-searches and discrimination. The younger generation in particular became acutely aware that, despite their ability to speak Hebrew and the merits of their labor, they received lower wages than their Israeli coworkers, were ineligible for tenure, and could not expect an occupation much better than menial labor.²⁵⁵ Aryeh Shalev of the Jaffee Center for Strategic Studies writes, "Studies show that political violence does not necessarily arise from a situation of relative or even absolute poverty, but is generated by the emergence or

252 Jerusalem Media & Communication Centre, *Israeli Obstacles to Economic Development*, 3

253 Aryeh Shalev, *The Intifada: Causes and Effects* (Boulder: Westview Press, 1991), 17.

254 Shalev, *The Intifada*, 16.

255 Shalev, *The Intifada*, 17.

formation of a gap between expectations and reality due to changes in one or both of these variables.”²⁵⁶

In an effort to curb growing Hamas recruitment, Israel exiled prisoners to southern Lebanon, which only brought more attention to the group and let to more Hamas focus on the West Bank.²⁵⁷ As failure of the PLO to produce any substantive results became increasingly apparent to ordinary Palestinians, support for Hamas, which provided basic welfare services, began to increase. In terms of political power, Israel and the PLO had a common enemy. For the PLO, political power appears to have trumped economic gains: concessions were granted for Arafat’s personal finance, while substance in the structuring of an independent Palestinian economy was left dangling.

The road map to peace, as developed through Oslo 1 (1993) and Oslo 2 (1995) presupposes that Israel and Palestine are interested in reaping the gains from trade implicit in a negotiated settlement (Cowen, 2004a, b; Dershowits, 2005). This historical evidence of the past 60 years unequivocally indicates that neither side is seriously interested in such an outcome (Plaut, 2004a, b; Farsoun 1997).²⁵⁸

As the Palestinian people became disillusioned by the apparent corruption within the PA, support for Hamas began to increase and in January of 2006, Hamas won a majority in the PA’s general elections. Infighting between the PLO and Hamas continues. As Ziad Abu Amr described the struggle, “If you have two brothers, put them into a cage, and deprive them of basic essential needs for life, they will fight.”²⁵⁹

Palestinian fragmentation has allowed Israel to dominate the territory more freely; however, in the long run, it threatens to disintegrate the PA and Israel’s precious Oslo mandate.

²⁵⁶ Shalev, *The Intifada*, 16.

²⁵⁷ Sherifa Zuhur, *Hamas and Israel: Conflicting Strategies of Group-Based Politics* (Carlisle, PA: The Strategic Studies Institute, U.S. Army War College, 2008), 35.

²⁵⁸ Charles K. Rowley and Jennis Taylor, “The Israel and Palestine Land Settlement Problem, 1948–2005: An Analytical History,” *Public Choice*, Vol. 128, No. ½, The Political Economy of Terrorism (Jul, 2006), pp. 77–90, 89.

²⁵⁹ Zuhur, *Hamas and Israel*, 38.

The assumption that the Israeli government's strategy is to undermine the Palestinian economy offers a rational explanation for Israel's course of action over the last fifty-odd years, including Israel's ambivalence toward the PLO and the PA, which Israel seems to simultaneously recognize and undermine. Anne Le More cites Peter Weinberge's 2002 dissertation from the London School of Economics and Political Science, which postulates that "fragmentation may be seen as a strategy to force the Palestinian leadership to forgo its demands for a state and settle for an alternative, sub-sovereign final status agreement."²⁶⁰ President Bush's 2004 speech, which effectively recognized Israeli settlement blocks in the West Bank and dismissed the right of return for Palestinian refugees, seems to confirm that, if this is the strategy, it is working.

The imbalance of power between Israel and the Palestinians has benefitted Israel in both economic and territorial terms. As Jimmy Weinblatt writes in, "Future Economic Arrangements between Israel and the Palestinians: an Israeli Perspective," these imbalances emerged in the Oslo agreements. Oslo began paying Israel dividends in 1993. Unemployment fell significantly and government funding of social services increased as foreign investment began flowing into the economy. Although the PA did make economic gains, progress happened at a much slower pace. The Paris Protocol favored short-term economic gain that benefitted Israel rather than Palestine. Not only was it an interim agreement that hinged upon the long-term resolution of the Oslo process, the Protocol contained very few specifics on the implementation of Palestinian economic growth or what Palestine's final economic state should be. Consequentially, there was neither a political nor economic contingency plan for how Palestine's economy should be run once Israel's occupation ended. While Weinblatt also concedes that there was a fatal imbalance of power between the two sides, he also contends, like the Pax Christi report, that the solution must be initially solved politically by addressing a list of economic problems before the formation of economic incentive is broached by either party.²⁶¹ However, the mechanism for this political change is unclear. He writes,

²⁶⁰ Le More, *Aid, Diplomacy, and Facts on the Ground*, 29.

²⁶¹ Jimmy Weinblatt, "Future Economic Arrangements Between Israel and the Palestinians: an Israeli Perspective, *Aid, Diplomacy, and Facts on the Ground, The Case of Palestine*, edited by Anne Le More, Robert Lowe and Michael Keating. Washington, D.C.: The Brookings Institution, 2005, 109.

The gap that exists between the two economies is much too great. Such a difference is extremely unhealthy for relations between the people and for future ties at the national level. A future agreement will have to be designated to generate an income convergence mechanism between the two nations. This goal calls for rapid growth of the Palestinian economy.²⁶²

However, this is a bit of a catch-22: it would seem that politics is needed to lift occupation and restriction of the OT economy, yet without some economic incentive on Israel's side, there is no political pressure to enforce such a concession. Israel had already begun reaping the economic benefits of the Oslo treaty before control of the territories was relinquished. Incentive was therefore structured in favor of signing the treaty and maintaining occupation, since Israel would, rationally, not make any unaccounted-for concessions.

While it is apparent that "An independent Palestinian state cannot be considered successful unless its people have good economic opportunities and quality of life. ... An independent Palestinian state will need to improve economic conditions for its people just as urgently as it will need to improve security conditions,"²⁶³ it is equally apparent that there is no political incentive to relinquish control of the occupied economy. Nor has economic incentive alone been powerful enough to alter the political will. Although evidence indicates that the improvement of living conditions and the availability of jobs for Palestinians will improve civil relations between the two groups, Israel's continued acquisition of territory through settlements, combined with a natural discomfort with the idea of an independent Palestine that could potentially demand more, has charted a course toward continued conflict.

Oslo's failure attests that a lasting settlement will require consensus between groups with balanced power. Second, the terms of economic rehabilitation and power-sharing need to be explicitly stated and enforced by a third party or the incentive to adhere to the agreement must be attached to some incentive. In other words, there should

²⁶² Weinblatt, *Aid, Diplomacy, and Facts on the Ground*, 110.

²⁶³ The RAND Palestinian State Study Team: Steven N. Simon, Ross C. Anthony, and Glenn E. Robinson, *Building a Successful Palestinian State* (Santa Monica: RAND Corporation, 2005).

either be a stick or a carrot, or both, to ensure the agreement is respected by both sides. If the IPI/API reaches a consensus, there might be political and economic incentive for Israel and the Arab states to ensure Palestinian sovereignty. However, as a decision in which only political elites are represented, it is unclear that the Arab States will be able to co-opt Palestine's fractured political base, much less justly represent, the Palestinian's political and economic cause.

While Oslo superficially appeared to address the security, governance, and economic pillars of post-conflict reconstruction, critical specifics, like clear political borders, that would end the competition between the precarious demographic proportions highlighted in conflict literature, were left unattended. Instead, as Oslo breaks down, Israel has settled for the worst possible strategy: the building of a physical partition. If it was not before, the OT is now the perfect incubator for hostility. As its constrained population balloons, its economy withers, a perfect recipe for strife.

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V. A NEW MEDITERRANEAN SOCIETY: WHY ECONOMIC PEACE WARRANTS FURTHER STUDY

You can't build peace by military means. Peace must be built on a system of trust. As someone who knows the Palestinians well, I claim that there should be no problem building a system of trust with them, a genuine one.

—Avi Dichter, former director of Shin Bet (2000) and Minister of Internal Security (2006–9) ²⁶⁴

When Israelis talk about this idea—understanding the equality of Arab and Jew—they say, ‘We have to talk to them at the height of the eyes.’ In other words, at eye level—with neither party having to look up or down at the other. The problem is, there are few Israelis who use that phrase—they are the exception.

—Richard Ben Cramer. ²⁶⁵

Since the British Mandate period, economic peace has been no more than a showpiece in Israel's diplomatic repertoire, periodically dusted off and recentered on the negotiating table as if it were a novel concept. Despite widespread support for a return to talks, according to a 2012 Gallup poll of Jewish Israelis, non-Jewish Israelis, and Palestinians, negotiations based on economic peace remain unappealing to Israel's political elite, because it would mean acquiescing to President Abbas's demand that Israel forfeit rights to build Jewish settlements in the West Bank and total control of Jerusalem—an indication that the conflict is still very much rooted in nationalism. Prime Minister Netanyahu adamantly refuses those demands, and Israel's current position of strength allows him to.²⁶⁶ “Out of the 22 members of Israel's cabinet, only Yaakov Peri, the science minister and former head of the internal security service, Shin Bet, said Israel should take the Arab League's proposal seriously.”²⁶⁷ Even Secretary of State John Kerry

²⁶⁴ Moreh, *The Gatekeepers*.

²⁶⁵ Cramer, *How Israel Lost*, 236.

²⁶⁶ Lydia Saad and Elizabeth Mendes, “Israelis, Palestinians Pro Peace Process, but Not Hopeful” (Princeton, NJ: *Gallup*, 2013).

²⁶⁷ “Could the Peace Dove Fly Again?,” *The Economist*, May 11th, 2013.

is pushing Israel to “look hard” at the proposal, the issue of settlements, the sticking point in the last round of negotiations only two years ago, remains politically taboo. The very week of Kerry’s visit, Israel approved the construction of more than 700 new settlement homes.²⁶⁸

Considering Israel’s ethnocentric nationalism—evident in statements like Israeli economic and trade minister Naftali Bennett’s incendiary pronouncement on June 2013 about the West Bank and Gaza, “This is our home. We are the tenants here, not occupiers. The story of establishing a Palestinian state within our country, that story is over”²⁶⁹—and considering the obstacles to creating cross-markets between Israel and Palestine that might influence politics, as well as the gross imbalance of economic and political power between the two parties, the prospect of economic cooperation leading to a better relationship, much less a lasting agreement, is grim.

However, before it is cast aside, economic peace should be considered more carefully. Economic peace is about creating a specific context—a context of cooperation, trust, mutual dependence, equality, and dignity. In other words, economic peace is the shaping of a political economy that favors peace. In his analysis of the 19th century European history, Mark R. Brawley makes the point that the nature of a state’s political economy can set the stage for conflict, a dynamic that in some ways descriptive of Israel today. He writes:

The economic conflicts within Germany itself also had repercussions. The instability of the German regime is often cited as a reason for German’s role in the initiation of World War I. The regime was built on a coalition of politically conservative groups—the Junkers and heavy industry—yet the distributional impact of trade continually threatened to push these two groups apart. To keep them together, and to keep the working class and liberals apart, policies were packaged in a ways that created problematic side-effects. Some argue that Germany’s foreign policy was manipulated.

268 “Arab League backs Kerry’s Israel-Palestinian Plan,” *BBC News: Middle East*, 17 July 2013.

269 Tovah Lazaroff, “Bennett: Apply Israeli Sovereignty over Area C,” *The Jerusalem Post* June 17, 2013.

The conservative could agree on nationalistic programs, so these became the centerpieces of foreign policy, which then enveloped foreign economic policy.²⁷⁰

What would a political economy that supported peace in Israel, Gaza, and the West Bank look like? Some conclusions can be drawn from the failures of the current system.

A. THE PROBLEM OF LEVERAGE

In 2005, the World Bank held a London Conference on a “Joint Palestinian–Israeli Private Sector Declaration Presented at the Conference: Promoting Economic Growth in the West Bank and Gaza through the Private Sector.” The first line of the preamble reads:

The Palestinian and Israeli private sectors have accepted the invitation of Her Majesty’s Treasury and the World Bank to develop a Declaration which sets out the steps required for promoting Palestinian economic growth and their expectations from the Palestinian Authority, Government of Israel, and the international community.²⁷¹

It continues:

There are valuable business and investment opportunities for Palestinian, Israeli and international investors. The points included in this Declaration are aimed at promoting business activity throughout the West Bank and Gaza by: Reducing physical impediments and ensuring that measures to increase reliability and efficiency of movement of goods and people are defined and implemented; Identifying measures to be put in place to protect the activities of investors and their businesses; Reducing the legal and regulatory obstacles to investment facing both domestic and international investors.²⁷²

Yet, realistically, by what leverage will business pull the strings of either Palestine or Israel’s political economy? Both economies are essentially run by the Israeli

²⁷⁰ Mark R. Brawley, *Turning Points: Decisions Shaping the Evolution of International Political Economy* (Toronto: University of Toronto Press, 1998), 230.

²⁷¹ World Bank, *Joint Palestinian – Israeli Private Sector Declaration Presented at the Conference: Promoting Economic Growth in West Bank and Gaza through the Private Sector* (London, December 13, 2005).

²⁷² World Bank, *Joint Palestinian – Israeli Private Sector Declaration*.

state.²⁷³ However, from the political angle of the masses rather than the elites, Yossi Alpher argues that those in the Israeli middle- and upper class who have benefited from neo-liberalism will be particularly sensitive about international boycotts of Israeli goods, which could damage Israel's cost efficiency and competitiveness. He writes, "[Prime Minister Ariel] Sharon's very decision to begin to remove settlements and withdraw from territories can be seen in this context as his own acknowledgement that Israel must take steps to neutralize international pressures."²⁷⁴ The current Israeli administration, however, is far less realistic about settlements. Sharon also perceived that demographic trends coupled with the desire for a "Jewish state" were steering Israel toward a South Africa-like Apartheid within a few decades.²⁷⁵

If trade cooperation is the economic carrot, boycotts are the economic stick. However, assuming strong political will existed, the likelihood that Westerners themselves could afford to boycott Israel's \$7–7.4 billion per annum technology-intensive services is unlikely.²⁷⁶ It seems the recent European Union boycott of the settlements is, unfortunately, too paltry to make the current government serious enough about upcoming talks to cease settlements.²⁷⁷

In the 1980s, Israel followed a policy of selective economic integration with Palestine that deliberately undermined Palestinian economic independence. The 1990s were characterized by neglect and occupation, with 54 percent of Palestinian territory under Israeli military and settler control.²⁷⁸ The opposite of peace-building economic integration, such policy amounts to economic manipulation and only enflames relations. An economic peace plan cannot ignore the lesson of Israel's own economic success: only the public sector is willing to make the long-term investment in education and research and development that will lay the foundation of human capital that contemporary

²⁷³ Bichler and Nitzan, *The Global Political Economy of Israel*.

²⁷⁴ Alpher, "The Future of the Israeli-Palestinian Conflict," 10.

²⁷⁵ Alpher, "The Future of the Israeli-Palestinian Conflict," 5.

²⁷⁶ Central Bureau of Statistics, Israel.

²⁷⁷ "Israel's premier fast-tracking bill allowing for referendum on peace deal with Palestinians." *The Washington Post*, July 21, 2013.

²⁷⁸ Khalidi, and Taghdisi-Rad, *The Economic Dimensions of Prolonged Occupation*, 9.

globalization requires. Otherwise, private, international investment will exploit the existing labor and consumer base rather than build it—and will rightly be seen by many as a new strategy for Palestine’s colonization. Economics will bring peace to the Palestinian people only when it brings them dignity and agency, essentially, when economics becomes a vehicle for the balance of power between the two peoples, effectively doing what Israel resists most.

Glenn E. Robinson argues that peace based on grossly imbalanced power, (e.g., the fragile peace made by The Treaty of Versailles) is far more precarious for both parties than a peace built on equal power (e.g., mutually assured destruction in the Cold War).²⁷⁹ Unlike the cold peace ensured by the relative equality in power of Egypt and Israel’s 1979 treaty, the Oslo Accords’ hegemonic peace has not only entrenched divisions between Palestinians and Israelis, but fragmented Israel’s internal political culture.²⁸⁰

Greater equality of economic power between the two states must begin at a domestic level. Even if Israel forged a new compromise with the Arab states, the business interests that would make it possible have little interest in investing in the structure of the Palestinian state, including the education, public research, and other social welfare necessary for sustained economic development in Palestine that could potentially match Israel’s. If Palestine’s development improves solely in terms of GDP, not only are peaceful relations unlikely, but the conflict could worsen. There are cases in which the closing of the income gap between two groups did not deter the course of the less privileged’s discontent.²⁸¹ Walker Connor writes:

It is good to remind ourselves of the first rule of human behavior: it is not what is but what people perceive as is that has behavioral consequences. And viewed through an ethnic prism, a disadvantageous economic

²⁷⁹ Glenn E. Robinson, “The Result of Hegemonic Peace: Instability for Both Israel and Palestine,” *Information Brief* No. 47, 12 (September 2000).

²⁸⁰ Robinson, “The Result of Hegemonic Peace: Instability for Both Israel and Palestine,” 3.

²⁸¹ *For example, despite the income gap narrowing between Slovakia and Czechoslovakia due to Czechoslovakian investment, Slovak unhappiness continued to rise.

Walker Connor, “From a Theory of Relative Economic Deprivation Towards a Theory of Relative Political Deprivation.” In *Minority Nationalism and the Changing International Order*, by eds. M. Keating and J. McGarry, 114–133. New York: Oxford University Press, 2001.119

imbalance is very apt to be seen as the product of discrimination. But this suggests that it is ethnicity that can impregnate economic data with the power to incite rather than vice versa. In situations where no ethno-national division is present, regionally defined groups will accept unfavorable economic disparities between themselves and others in the state which, had they coincided with ethno-national groups, would bring charges of discrimination and rumblings of political separatism.²⁸²

Certainly, GDP growth cannot be not an end in itself. GDP, in fact, empirically signifies very little in terms of peace. Economic incentive does not function as a destination, but exclusively as a means to an end. Financial incentive to cooperate builds peace by creating common ground where both parties must put identity differences aside and construct functional relationships in order to attain a mutually beneficial reward. Therefore, economic peace can only function when it is based on a specific type of economic structure. GDP-generating business partnerships that are run by elites do not build relationships, because they take the form of a superstructure that can function without direct interaction with the majority of employees. A Coca-Cola factory can be owned by a single Israeli who never meets the vast majority of his Palestinian employees. For economic peace to work, economic incentives work like a matrix of incentivized interaction. In contrast to a superstructure model, an IT company that employs both Israelis and Palestinians is an environment in which groups mingle together as equals working together for a common purpose. This simple, yet profound, difference determines whether economic cooperation erodes identity politics and supports peaceful relations or merges it with class differences, making the chasm between the two peoples only more profound.

What Secretary of State Kerry and Prime Minister Netanyahu are calling economic peace is nothing more than the potential widening of foreign investment markets. Without addressing the “man on the street’s” need for basic dignity, a malformed “economic peace” will be the harbinger of even more hostile and entrenched Arab and Jewish nationalism and the potential advocacy, by those like Naftali Bennett, of an apartheid state that will destroy what is left of the liberal nature of Israeli society.

²⁸² Connor, “From a Theory of Relative Economic Deprivation,” 117.

Palestinian autonomy is just as important to Israel's integrity as Palestine's. Yet the 2013 Kerry peace plan does not deal with that issue. Even if new economic arrangements bring foreign investment by companies like Coca-Cola and a soaring GDP to Palestine, as promised, as long as Netanyahu insists on maintaining Israel's control of Area C land, an exclusive claim to the natural gas fields off the coast of Gaza, the opening of a Palestinian national airport, the cessation of Jewish settlements on the West Bank, and the continuance of negotiation over the actual border of Palestine, peace will remain elusive.²⁸³

Roy Wagner, a member of the Israeli activist group Anarchists Against the Wall, makes this very point in his lamentation to GlobalPost.com.

The premise that we have to have elite politicians solving problems for us economically—while a group of people, based on their ethnicity, are marked as terrorists, while they are losing mobility, livelihood, rights—is wrong. It is an impossible situation to resolve this way. The rights should be respected. The occupation should first be ended, and full equality should be given to everyone.²⁸⁴

As economic peace analysis has shown, economic integration from the top down is not an effective method for moderating relations; worse, it can inflame them.

Kerry's efforts are all the more quixotic because they have been made so many times before. Israel's leaders have parroted economic-peace policy for the better part of a century, blithely ignoring the fundamental contradictions in Israel's national goals and identity. Prime Minister Netanyahu proudly claims the Secretary of State's economic peace approach is one he has advocated for years.²⁸⁵ In 2008, he stated, "We must weave an economic peace alongside a political process. That means that we have to strengthen the moderate parts of the Palestinian economy by handing rapid growth in those areas, rapid economic growth that gives a stake for peace for ordinary Palestinians."²⁸⁶ Yet

²⁸³ Gavriel Fiske, "Kerry Pushes Economic Plan for Palestinian Peace, *The Times of Israel*, April 25, 2013.

²⁸⁴ Rebecca Sanchez, "Israel-Palestine: On John Kerry's Economic Peace Plan." Globalpost.com, June 30, 2013.

²⁸⁵ Fiske, "Kerry Pushes Economic Plan for Palestinian Peace."

²⁸⁶ IKV Pax Christi, *Analysing Israel's Economic Policy Towards Palestine*, 11.

even as Secretary Kerry made his fifth trip to the Holy Land in June of 2013, Israel, despite condemnation from the UN Secretary General and at exorbitant cost, plans to go ahead with the construction of 1,000 new settlement homes in the West Bank and East Jerusalem.²⁸⁷ At least Kerry's visits may have prompted Israel to resume payments to the Palestinian Authority of taxes totaling \$115 million that had been frozen following Palestine's successful bid for nonmember-state status in the UN general assembly.²⁸⁸ The prime minister fails to address the contradiction that if Israel's goal is to reinforce the politics of moderate, ordinary citizens, Israel must first weave an economic peace alongside its own political process, beginning with an end to settlements. Between 1994, the year the Paris Protocol was signed, and 2001, the settler population rose from 122,700 to 198,000.²⁸⁹ Moreover, Netanyahu's statement ignores the blaring conclusion made by a number of notable scholars and independent peace organizations, that the problem with Palestine's economy is Israel's occupation.²⁹⁰

B. ECONOMICS AND THE CASUS BELLI

We wanted security and got more terrorism. They wanted a state and got more settlements. When we started the Oslo process in 1993–94, 100,000 settlers lived in the West Bank and Gaza, not including the new Jerusalem suburbs. At the end of the process, 6–7 years later, in the summer of 2000 when the peace process collapsed, there were over 220,000 settlers. Ehud Barak is very proud to have built more settlements than Bibi Netanyahu or any other prime minister before him....It was obvious we were heading to another intifada, another round of violence by a group, a society, a nation that felt it had nothing to lose.²⁹¹

—former director of Shin Bet

Despite the damage economic hardship wreaks on political relationships, for Israel to take the initiative in alleviating economic pressure there remains a political

287 Mark Weiss, "Israel plans Settlements Despite EU's Tougher Line: Construction Plans for West Bank Going Ahead as John Kerry Tries to Broker New Talks," *The Irish Times*, July 18, 2013.

288 Fiske, "Kerry Pushes Economic Plan for Palestinian Peace."

289 Naseer Aruri, *Dishonest Broker: The Role of the United States in Palestine and Israel* (Cambridge, MA: South End Press, 2003), 248.

290 "United Nations Seminar on Assistance to the Palestinian People," February 2012.

291 Moreh, *The Gatekeepers*.

problem: it would require that Israel give up power over the land. But, for Palestinians, the occupations and settlements are not just political issues, they are economic issues. According to Daniel Levy, although the official land occupied by settlements is about one percent, 42.8 percent of the West Bank is under the control of municipal and regional councils, zoning, and planning and they constrict the Palestinian movement and access to land resources, threatening the economic and political viability of a two-state solution.²⁹² Economic erosion has impacted Palestinian politics. Rapid decline in the Palestinian standard of living has undermined the Palestinian governing body, already weakened by reorganization after Oslo.²⁹³

Israel's support of settlements belies Israel's insincerity toward pursuing an economic peace plan, just as it did a century ago, since it renders Palestinian autonomy impotent. And, like a century ago, Israel relies on external funding to stretch political boundaries. William Seighart claims:

Settlement-building is continuing apace, not just with existing settlements, but with the establishment of new outposts every year in the West Bank, and despite international criticism, even from Israel's closest ally, the United States, the process continues, often funded by donations by the United States supported by tax breaks for U.S. citizens who make these kinds of donations. So, given the rate of settlement development, it's hard to find any international political figure who genuinely believes in the Israeli government's intent to seek peace with the Palestinians based on the 1967 borders, maybe with some land swaps, with a capital in East Jerusalem. And rhetoric of the current Israeli political campaign, combined with (these) maps, tells a story. And I think you'd have to be a peculiarly credulous individual to believe a different story.²⁹⁴

However, it is easy to criticize any nation from outside. Israel faces a serious internal political quandary: the mere prospect of economic peace requires Israel to give up the dream, shared by many, of a state united by a sacred geography. Moreover, from a realist position, the argument that Palestinian autonomy is a threat to Israel is compelling. Underlying Israel's calculation that relinquishing power would be a mistake is the fear

²⁹² Levy, Daniel, William Sieghart, Dani Dayan, Caroline Glick, moderated by Tim Franks. *Israel Is Destroying Itself With Its Settlement Policy Intelligence Squared Debate*, (January 15, 2013).

²⁹³ Gordon, *Israel's Occupation*, 223.

²⁹⁴ Levy, Debate, 2013.

that while economic disparity underpins tensions, at least in part, Palestinian capital is a potential threat to Israel's security. Economically constricting policy may hurt moderate Palestinians, but it also hampers Hamas' ability to buy rockets. Perhaps the most fundamental dilemma for Israel about economic cooperation is that preventing future radicalization might mean putting money in the hands of the already radicalized. This idea is not likely to garner much political support, particularly when there is no strong, external political force pressuring Israel to take the plunge—yet no better strategy has yet been proffered.

In either a single state or two-state solution, Israel must eventually give Palestinians rights, including economic rights. However, Israel, by default, continues to limit its strategy to the short-term neutralization of both violence and Palestinian political power while neglecting long-term economic rehabilitation, thereby compounding Palestinian nationalist and fundamentalist fervor. If Palestinians lose hope, both peoples will suffer. But political factors have created an impasse.

While the promise of Palestinian economic rights has been an important plank in establishing security and Israeli hegemony in the West Bank, fulfilling those promises opens the door on an unknown. However, as time ticks on with no evidence that things will change, the more frightening does the prospect of relinquishing control become for Israel. A former head of Shin Bet reminisces, in *The Gatekeepers*:

We prevented more attacks every year. We achieved greater security every year. How did it happen? It had a lot to do with changes we made in the Shin Bet, but the truth must be told. The most significant achievement was coordination between us and the Palestinians. I met with all the top Palestinian security officials, all of them, once a month, to coordinate intelligence. They always told me, "We're not your agents. We don't put Hamas member in prison for your sake. We only do it because our people believe that, at the end of the day, we'll have a state beside Israel. When we no longer believe that, forget about us."²⁹⁵

There is no better evidence for the ability of Israelis and Palestinians to cooperate than the Palestinian Authority.²⁹⁶ However, if the PA does not achieve evident measures

²⁹⁵ Moreh, *The Gatekeepers*.

²⁹⁶ Moreh, *The Gatekeepers*.

of equality for the Palestinian people, it will implode. Whether economic peace will effectively ease tensions is a question of whether attitudes on either side will shift with the facility they did in the most redeeming aspect of Oslo—the cooperation between Israeli security forces and the PA. Since Oslo, however, the PA has been unable to pursue the expansion of exports, lowering of imports, job creation, and industrial and agricultural production, due to its lack of regulatory and institutional authority.²⁹⁷ The continued use in each new agreement of vague language that defers to the existing power disparity between Israel and Palestine has continued to undermine the PA and worsen the situation. UNCTAD's Raja Khalidi and Shar Taghdisi-Rad summarize:

In 2009, as the envisioned viable and vibrant Palestinian state is again on the international agenda, concerned economic policymakers can benefit from a candid assessment of how prolonged occupation – and the economic strategies associated with it – have been an obstacle to such a solution. In whatever form a new offer of Israeli economic liberalization towards the Palestinian economy might come, as long as it is not underpinned by the establishment of sovereign Palestinian economic institutions and adequate national economic policy space, its impact will ultimately prolong and deepen occupation.²⁹⁸

Economics plays a role in the cause of the conflict and must play a role in its cure. History shows that Jews and Arabs can live together. However, it will require redefining the terms of the relationship to be based on equality and dignity. Economics can and must play a role in this relationship, and, unlike in Oslo, it must be an explicit part of a political solution. As Daniel Levi eloquently puts it:

Are the Palestinians uniquely intolerant? Uniquely impossible to make peace with? Are we uniquely destined to be enemies forever? I'd argue that view is ahistorical, is a misreading of reality and its more than a little bit prejudiced. Unique, permanent unreasonableness does not apply to Palestinians or Muslims, it does not apply to Jews or Israelis. If we remove the *casus belli*, the burning humiliation of today and tomorrow will everything still be dictated by the humiliations of yesterday? Both peoples can be forward-looking.²⁹⁹

297 Khalidi and Taghdisi-Rad, *The Economic Dimensions of Prolonged Occupation*, 25.

298 Khalidi and Taghdisi-Rad, *The Economic Dimensions of Prolonged Occupation*, 1.

299 Levi, Debate, 2013.

C. ECONOMIC PEACE AS COSMOPOLITANISM

I started as a coordinator in the Nablus district, very pretty area, full of olive trees. I liked to get out of my car and wander in the field, refugee camps, alleyways, visit homes, sit in cafes, talk. I really loved the interaction with the people. From that exotic encounter with olive trees, landscapes, and peasants, I found myself at the center of the Palestinian problem. I was working in the refugee camps...suddenly you see what refugees are...Once you look more deeply you say, 'wait, I'm not an observer here to take photos and leave. I'm an active participant.' At first your security role is all you care about. It's easier to be on that side.

—Former Director of Shin Bet³⁰⁰

There is something to the fact that ordinary interaction can bring about remarkable change. The “contact hypothesis” continues to be actively explored by a number of scholars in an array of protracted conflicts. Echoing the findings for economic peace, the contact hypothesis is contingent on a specific structure.

Gordon Allport's (1954) seminal work on the possibility of reducing prejudice and bias via intergroup contact (i.e., the “contact hypothesis”) suggests four necessary conditions for contact to be effective: equal status during the contact phase, a common goal, the need for intergroup cooperation in achieving the goal, and the sanction or support of authority figures.³⁰¹

Deepak Malhotra and Sumanasirei Liyanage found evidence that peace workshops with Palestinians and Israelis, under Allport's conditions, had lasting effects.³⁰²

Economic cooperation's potential to lead to peace lies with its role in establishing common ground and equality. But, before Israelis and Palestinians can “talk to each other at the height of their eyes,” Palestinians need to have economic freedom in terms of the law and economic institutions that support a middle class. Economic peace is a question of socioeconomics, not gross output. A job is not merely a means to procure material well-being, but plays a fundamental role in something more intangible: political and

300 Moreh, *The Gatekeepers*.

301 Deepak Malhotra, and Sumanasiri Liyanage, “Long-Term Effects of Peace Workshops in Protracted Conflicts,” *The Journal of Conflict Resolution*, 908–924 (2005), 910.

302 Malhorta and Livanage, “Long–Term Effects of Peace Workshops,” 911.

social representation. Fordism was not important because of material benefits alone, but because the middle-class wage Henry Ford paid his employees gave them the ability to purchase the products they sold, gave them a sense of dignity, and established a middle class in America.

A job may be a source of representation and employment can be a means of empowerment or exploitation. Palestinians, for example, working as ditch diggers in West Bank Jewish artifact digs (that later become sites for settlements) are not benefitting from economic cooperation. As Jurgen Habermas writes in “The Concept of Human Dignity and the Realistic Utopia of Human Rights:

Human rights developed in response to specific violations of human dignity, and can therefore be conceived as specifications of human dignity, their moral source. In spite of its abstract meaning, ‘human dignity’ still retains from its particularistic precursor concepts the connotation of depending on the social recognition of a status....³⁰³

While Habermas is particularly concerned with democracy as political representation, the structural power of capital has had a critical role in shaping political systems, democratic representation in particular, demonstrating how economic and political representation are inexorably linked.

The tie between social and economic representation explains why, based on empirical data analysis, economic peace is ineffective when it only creates economic integration among social elites. In such cases, status is merely consolidated among a few, leaving the general population with even less political leverage. In the broader context of the Middle East, Palestine’s lack of political status is proportional to its lack of material wealth.

But, just as history demonstrates the immutability of the current conflict’s conditions, it also can tell us there was a time when economic cooperation prevailed in the Holy Land. In 1967, Shlomo Goitein published an exhaustive three-volume account of what is known as the Cairo Geniza: a vast collection of letters, primarily from middle-

³⁰³ Jurgen Habermas, “The Concept of Human Dignity and the Realistic Utopia of Human Rights,” *Metaphilosophy*, no. 4 (2010): 464, 464-480.

class Jews from the tenth to thirteenth centuries, including court records, contracts, and other accounts that were, according to the common belief that any manuscript which on which the name of God appeared should be buried like the human body, entombed in a lumber room only to be unearthed centuries later and preserved in ancient libraries around the world. His first volume, on the subject of economics, paints a picture of a society that, despite some tensions, is colorful and cosmopolitan:

In the Islamic guilds of the later Middle Ages, just as their Christian counterparts in Europe, had a semireligious character...No such exclusiveness is to be observed in the Geniza papers. We hear of Muslim and Jewish silversmiths and glassworkers who run ships in partnership, each group taking off its own weekly holiday; of Muslim carpenters working partly as employees and partly as partners of a Jewish fellow carpenter, and even of a Jewish court inviting Gentile experts in purple-dyeing together with their Jewish colleagues to estimate the value of the equipment of a workshop forming part of the inheritance of an orphan girl...the manufacture and the sale of goods were as little separated in this period as they were in ancient Rome.³⁰⁴

Sami Zubaida calls for a return, in terms of persons, places, milieus, and ideologies, to cosmopolitanism throughout the Middle East:

What we mean by “cosmopolitan,” then, is not the fact of multi-cultural co-existence, but the development of ways of living and thinking, styles, of life which are deracinated from communities and cultures of origin, from conventional living, from family and home-centeredness and have developed into a culturally promiscuous life drawing on diverse ideas, traditions, and innovations.³⁰⁵

The goal of an economic solution should be to create conditions for cosmopolitanism, and, I can think of no better platform than economics to create “the weakening of communal boundaries, the creation of institutions, milieus, and means of communication outside communal and religious authority, in which individuals from diverse backgrounds and cultures can participate;” the pre-requisite social environment

304 S. D. Goitein, *A Mediterranean Society: The Jewish Communities of the World as Portrayed in the Documents of the Cairo Geniza* (Berkeley: University of California Press, 1967), 85

305 Zubaida, Sami. *Cosmopolitanism, Identity and Authenticity*. Edited by Roel Meijer (London: Curzon Press, 1999), 16.

for cosmopolitanism that Zubaida describes.³⁰⁶ Many who support the Israeli Peace Initiative agree. Naava Mashiah, CEO of M.E. Links, Senior Consultant at ISHRA and editor of MEDABIZ economic news writes,

Knowing that the other side is not a monolithic society but is rather comprised of many different groups with competing values and priorities, including large segments of society who actually want to live in peace with each other, could begin to shape a Middle East which is a healthier neighborhood for all its inhabitants.³⁰⁷

The economic-peace solution warrants far greater research than the limited introduction presented here. However, I hope to have made one point: that economic peace must be supported through a matrix, not only by a hierarchy. For the primary obstacles to economic peace are, in sum, elite based: ethno-nationalism and economic differences derived from differences in status, including access to education, investment, and political power. These problems do not go away, even if a political solution is achieved. The economic structure of the conflict, therefore, is critical to determining a course for future negotiations. Neither the IPI nor Kerry nor the Arab League should ignore the role of the common Palestinian man. For economic cooperation that benefits a Palestinian minority will only pour fuel on the toxic divide between the PLO and Hamas that already exists within the Palestinian community and provide no relief to the seething nationalist elements on either side of the green line, in Israel and Palestine. As Roel Meijer writes of the sunset of cosmopolitanism in the Middle East:

In the eyes of the population, the existence of a ruling elite of bureaucrats, large landowners, and businessmen who were conversant in their own culture as in that of Europe only further discredited cosmopolitanism. The group's intermediary role between different cultures became suspect as it became associated with "social injustice" and the lack of communal spirit, which the independence struggle against Western domination and the rise of the nation-state demanded of the ruling class.³⁰⁸

Liberalism often simplistically assumes that the market will automatically resolve social problems if given the chance. Every economy is influenced by politics, and every

306 Zubaida, *Cosmopolitanism, Identity and Authenticity*, 19.

307 Naava Mashiah, "The Israeli Uprising," *commongroundnews.org*, June 28, 2011.

308 Meijer, *Cosmopolitanism, Identity and Authenticity*, 2.

political structure is influenced by economics. Though how and why are difficult to determine, they require attention. In the case of the Arab–Israeli conflict, the catalyst is Israel’s desire for a nation-state on land already occupied—a point very evident when one looks at the conflict through an economic lens. For either a single or two-state solution, Israel and Palestine will have to cooperate. Perhaps the question for future research is, “what will induce this cooperation?”.

I conclude with an image of the Holy Land that I believe captures the grace that may someday again define it. Shlomo Goitein writes that in early medieval Jerusalem, the title of “traveler” was held with great pride. On the return from a voyage, a Jewish traveler of those times attended an obligatory public ceremony of thanksgiving for safe passage, a custom shared by Christians and Muslims. The traveler would be called to read a weekly passage from the Bible, followed by a verse selected particularly for this ritual: “Blessed be He who bestows bounties on sinners. He has favored me with His bounties.”³⁰⁹

³⁰⁹ Goitein, *A Mediterranean Society*, 352.

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